

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	



Comprehensive Annual Financial Report

Richard J. Notte
Mayor

Deanna Koski
Mayor Pro Tem

Richard L. Bracci
Councilman

Yvonne D. Kniaz
Councilwoman

Joseph V. Romano
Councilman

Maria G. Schmidt
Councilwoman

Barbara A. Ziarko
Councilwoman

Mark D. Vanderpool
City Manager

Brian S. Baker
Finance and Budget Director

Leslie D. Reinhart, CPA
Controller

Rick J. Sanborn, CPA
Financial Services Manager

For the Fiscal Year Ended June 30, 2007

Prepared by the Office of Financial Services, City of Sterling Heights, Michigan

City of Sterling Heights, Michigan

Contents

Introductory Section

City Manager's Comprehensive Summary of Fiscal Year 2006/2007 and a Prospective Look at the Future of the City of Sterling Heights	i-xi
Letter of Transmittal	xii-xxvii
GFOA Certificate of Achievement	xxviii
City Organization Chart	xxix
List of Principal Officials	xxx
Fund Organization Chart	xxxi

Financial Section

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-11

Basic Financial Statements

Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13-14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15-16
Reconciliation of Fund Balances to the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances	18-19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Proprietary Funds:	
Statement of Net Assets	21
Statement of Revenues, Expenses, and Changes in Net Assets	22
Statement of Cash Flows	23-24
Fiduciary Funds:	
Statement of Fiduciary Net Assets	25
Statement of Changes in Fiduciary Net Assets	26

City of Sterling Heights, Michigan

Contents (Continued)

Financial Section (Continued)

Component Units:	
Statement of Net Assets	27
Statement of Activities	28
Notes to Financial Statements	29-60

Required Supplemental Information 61

Budgetary Comparison Schedule - General Fund	62
Budgetary Comparison Schedule - Major Roads Fund	63
Budgetary Comparison Schedule - Community Development Block Grant Fund	64
Pension Systems Schedule of Funding Progress	65-67
Note to Required Supplemental Information	68-70

Other Financial and Supplemental Information

Nonmajor Governmental Funds:	71
Combining Balance Sheet	72-73
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	74-75
Budgetary Comparison Schedule	76-82
Major Funds:	83
Budgetary Comparison Schedule - Major Capital Projects Funds	84
Fiduciary and Agency Funds:	85
Combining Statement of Fiduciary Net Assets - Trust Funds	86
Combining Statement of Changes in Fiduciary Net Assets - Trust Funds	87
Combining Statement of Fiduciary Net Assets - Agency Funds	88
Combining Statement of Changes in Assets and Liabilities - Agency Funds	89

City of Sterling Heights, Michigan

Contents (Continued)

<u>Statistical and Continuing Disclosure Contents</u>	90-91
<u>Statistical</u>	92
Financial Trends	
Net Assets by Component	93
Changes in Net Assets	94
Fund Balances of Governmental Funds	95
Changes in Fund Balances of Governmental Funds	96-97
General Governmental Tax Revenues by Source	98
Revenue Capacity	
Property Tax Levies and Collections	99
Property Tax Rates - Direct and Overlapping Governments	100-101
Assessed Taxable Values (History of Property Values)	102-103
Principal Property Taxpayers (Major Taxpayers)	104
Debt Capacity	
Ratios of Net General Bonded Debt Outstanding	105
Ratios of Outstanding Debt by Type	106
Direct and Overlapping Governmental Activities Debt	107
Legal Debt Margin	108
Legal Debt Margin Information	109
Pledged Revenue Coverage	110
Demographic and Economic Information	
Demographic and Economic Statistics	111
Miscellaneous Demographics	112
Principal Employers (Major Employers)	113
Operating Information	
Operating Indicators by Function	114-115
Capital Asset Statistics by Function	116
Building Permits at Market Value	117
Full-time Equivalent City Government Employees by Function	118
<u>Continuing Disclosure</u>	119
State-shared Revenues	120
Gas and Weight Taxes	120
Labor Agreements	121

CITY MANAGER'S COMPREHENSIVE SUMMARY OF FISCAL YEAR 2006/2007 AND A PROSPECTIVE LOOK AT THE FUTURE OF THE CITY OF STERLING HEIGHTS

Honorable Mayor, City Council, and Community Residents:

This executive summary is an analysis of the results of operations of the City of Sterling Heights and serves as the introduction to the City's Comprehensive Annual Financial Report for Fiscal Year 2006/2007. Contained within this report is pertinent information about the City's community, economy, and major initiatives completed during the past year, as well as a prospective look at the future.

STERLING HEIGHTS - AN ESTABLISHED AND RESPECTED COMMUNITY

The City of Sterling Heights was incorporated July 1, 1968 operating under a Council-Manager form of government. The City is governed by a mayor and a six-member city council, who individually serve two-year terms. Elections are non-partisan and are held the first Tuesday of November in each odd-numbered year. The mayor is a directly elected position, while the council candidate who receives the highest number of votes in the general election serves as the mayor pro tem. Under the Council-Manager form of government, the mayor and City Council appoint two officials: the City Manager and the City Attorney. The city manager is the chief administrative officer of the city and is responsible for its daily operations, while the city attorney provides legal counsel to the City Council. The Mayor and City Council also appoint residents to the boards and commissions to assist in implementing initiatives set forth by the Sterling Heights City Council. More than 170 volunteers dedicate their time and talents to the City's 27 boards, commissions, authorities, committees, as well as the Sterling Heights Community Foundation. From beautifying the community to regulating its development, board members and commissioners meet regularly to support the City Council and City Administration.

The City of Sterling Heights is a vibrant community with a strong sense of civic pride and determination by its community leaders. At 36.8 square miles, the City is bordered by M-59 on the north, 14 Mile Road on the south, Hayes Road on the east, and Dequindre Road on the west. Geographically, Sterling Heights is the third largest city in the state. There are more than 395 miles of roadway in Sterling Heights, of which 349 miles are maintained by the City. Sterling Heights is a balanced community that is rich with cultural diversity, community wellness, and economic vitality. Sterling Heights continues to attract upscale housing developments, prestigious office complexes, and large commercial development projects. The 2007 estimated population for the City stands at 128,914, making Sterling Heights the state's fastest-growing community among cities with more than 100,000 residents. In terms of population, Sterling Heights is the fourth largest city in Michigan. There are 60 voting precincts in the city with more than 83,450 registered voters. City services are provided to 32,886 houses, 9,531 apartments, 7,747 condominiums, 1,691 mobile homes, and 2,603 commercial and industrial businesses.

TO STRIVE ON BEHALF OF ALL

Recognized as a progressive city, Sterling Heights' elected officials and professional staff are committed to providing outstanding services to city residents. The City's elected and administrative officials occupy leadership roles in state, regional, and national organizations, such as the Michigan Municipal League, Government Finance Officers' Association, and the International City/County Management Association.

Sterling Heights has pursued a policy dedicated to attracting and retaining highly qualified management personnel. The City provides a level of compensation sufficient to attract and retain the management talent and expertise necessary to properly serve the community. A majority of our supervisory personnel hold graduate degrees in their respective fields with over 95 percent of our city department heads holding post-graduate degrees. In addition to these credentials, several of our employees have received special recognition for their abilities from their peers via election to state or national offices of professional associations and as instructors at professional seminars.

The City's current administration has been in place for several years and has taken many steps toward improved budgeting, controlled costs, and improved efficiency. Staff restructuring, pay increases mirroring inflation, and the use of privatization where economically feasible have kept the City's salary expenditures manageable.

The 2007/2008 approved budget includes funding for 630 full-time positions, an increase of one position. A vacant police captain position has been eliminated and replaced with two police officers assigned to the road. Although the City has eliminated 19 vacant positions since 2002, saving \$1.3 million annually, full-time staffing has still increased by nine positions since 1996. As a result, our ratio of employees to residents is at a 30-year low. As evidenced by the ICMA's Center for Performance Measurement data, the City has one of the lowest ratios of employees per 1,000 residents, which explains why the City's costs are less than 82 percent of other cities nationally. These statistics illustrate the high productivity level of our employees in order to achieve high performance results. In addition, both city pension plans are fully funded. Last year, city administration conducted the 2006 Resident Satisfaction Survey of 3,000 randomly selected households achieving an overwhelming response rate of over 50 percent. According to the survey, 95 percent of the City's residents consider the city an excellent or good place to live.

A LIFESTYLE FOR EVERYONE

Comprehensive plans have been established that will continue to enhance and secure the quality of life in Sterling Heights for many years to come. These goals and objectives will serve to heighten the community's existing foundation of quality programs and services for residents. The City's annual strategic plan will guide the City in managing its capital improvement needs and equipment purchases over the next several years. With support from residents, the City of Sterling Heights continues to strive for excellence.

Most Informed City

Sterling Heights continues to implement technologies that will enhance customer service and improve efficiency as follows:

- ▶ Sterling Heights was the first in the state to offer the *Water Bill Review and Payment Service*, which allows residents to review historical accounting of water usage on their address, as well as having the option to pay their bill online;
- ▶ A new *Water Billing Budgeting Program*, recently made available for residential customers, is designed to help smooth out the four quarterly water bills that residential customers receive each year;
- ▶ Sterling Heights residents can review vital voting information on the City's new online *Voter Information Center*;
- ▶ The City has utilized new disability accessible voting machines, received through grant funds, that allow a sight-impaired or disabled person the opportunity to vote with greater ease;
- ▶ Sterling Heights now provides a *Surplus Auction* link on the City's website to accommodate the need for a more efficient means of disposing surplus equipment and supplies;
- ▶ The City implemented an electronic City Council agenda packet whereby residents are able to access the complete agenda packet from their home computers;
- ▶ Sterling Heights was the first city in Michigan to introduce the *Online Permit System* that allows contractors to obtain plumbing, electrical, and mechanical permits via the City's website;
- ▶ The *Online Assessing and Tax Information System* allows residents to obtain assessment roll information on any parcel in Sterling Heights. The online Internet service provides users with the ability to gain information on school districts, administration fees, and current tax bills;
- ▶ Residents and non-profit groups have the opportunity to publicize activities, such as garage sales, golf outings, and lost pet notices on Sterling Heights Television (SHTV) at no charge;
- ▶ Vendors conducting business with the City now have access to the new *Central Bid Notification System* to obtain information regarding posting bids, quotes, construction notices, etc; and
- ▶ Registration for the Parks and Recreation and Library programs can now be accomplished online.

Safest Big City

The City enjoys an outstanding reputation for public safety and thus has established an Emergency Operations Center (EOC) and an alternate emergency dispatch center. Also, an Incident Command Vehicle has been placed into service to be used for emergency response by the Police, Fire, and Public Works Departments. The City of Sterling Heights Emergency Preparedness Partnership has been created, consisting of representatives from the City's Emergency Services Operations Group (ESOG), private sector, and Chamber of Commerce. This group will increase communications and cooperation between the public and private sectors in response to emergencies. In addition, Sterling Heights recently joined *A Child Is Missing* program, a nonprofit program that provides a rapid response communication network and dissemination of information. Police officers in Sterling Heights are now able to receive immediate assistance during searches for missing children, the elderly, and the disabled.

Continuous training for sworn personnel and police academy students contribute to the emphasis on security within Sterling Heights. Along with such programs as D.A.R.E., Neighborhood Watch, Child I.D., and Crime Prevention, the Police Department annually sponsors the Citizens' Police Academy, a nationally recognized program that trains residents to take an active role in community protection. In addition, the Police Department's K-9 Unit recently claimed the top two spots in the regional Midwestern United States Police Canine Certification Trials, which is a rigorous testing competition of numerous K-9 programs throughout the Midwest. According to FBI crime statistics, the City has continued to maintain its "Safest City in Michigan" ranking with crime decreasing overall in Sterling Heights. In addition, the Sterling Heights Police Department utilizes an in-car computer system that assists the officers in obtaining more information on potentially dangerous suspects. The CLEMIS (Courts and Law Enforcement Management Information Services) system links with area police departments and allows the sharing of vital information. During the past year, the 800 MHz Public Safety Radio System was established for the Police, Fire, and Public Works Departments. Keeping crime rates down can be attributed to the City having the appropriate and necessary financial resources and a concerned public that cooperates with law enforcement.

The Sterling Heights Police Department has implemented a summer Residential Traffic Safety Initiative by using DARE officers to enforce traffic concerns throughout city neighborhoods. This valuable program has been very successful through enforcement action and education in addressing the residents' concerns, thus enhancing safety activities in residential areas of the city.

The False Alarm Ordinance was established in an effort to further the public safety and welfare of the city's taxpayers. This program has been effective in reducing the undue burden incurred by taxpayers for unnecessary false alarm responses. Alarm users are encouraged to maintain operational reliability of the alarm system, thereby reducing and preventing the misuse of police and fire resources at taxpayer expense. In addition, the City's Snow Emergency Ordinance has been enhanced to provide increased enforcement authority requiring owners to remove vehicles from the street during a declared emergency.

Sterling Heights Fire Department became the first fire department in the world to achieve ISO 9001:2000 registration. This achievement expresses a commitment to quality that is internationally understood and accepted, thus attaining quality customer service and continual improvement. Additionally, the department has been the first in providing programs such as the administering of free flu shots to senior residents and introducing and adopting the first Private Water System Ordinance that requires private water systems to provide an annual maintenance program. Sterling Heights is below average in the number of fires and fire losses nationwide. As part of the City's fire prevention and training efforts, the Fire Department successfully completed its ninth annual Civilian Fire Academy in which residents had the opportunity to receive hands-on experience on a variety of fire safety equipment and techniques. The Fire Prevention Division of the Sterling Heights Fire Department is the first in the state to have all of its members certified by the National Association of Fire Investigators (NAFI). As a result, a high level of credibility is present at all times when Sterling Heights inspectors work on various fire matters. The Fire Department continues to take the initiative toward offering advanced life support services, fire rescue and suppression activities, fire prevention/inspection/investigation, public education, hazardous materials response, and all forms of technical rescue.

Most Efficient City

The Sterling Heights Civic Center, with its inviting and functional campus-style layout, includes City Hall, Public Library, Police Department, 41-A District Court, Upton House, Recreation Center, Nature Center, and Senior Activity Center. The Civic Center has become the community focal point for municipal activities and cultural events with such landscaping enhancements as the placement of several sculptures throughout the complex. Residents have access to a modern, state-of-the-art City Hall with offices, meeting rooms, and a 200-seat City Council Chambers. The Employee Memorial Fountain, situated outside City Hall, was created to serve as a lasting tribute and memorial to Sterling Heights employees who have died in the line of duty. The Public Library houses a cultural center with expansive user space. With security enhancement in place, the Kenneth J. Kosnic 41-A District Court Building provides a safe and secure environment for dispute resolutions within our jurisdiction. The 128-year old Upton House is a Michigan Historical Landmark and is one of the few surviving 19th century homes in Sterling Heights. Today, the Upton House is used for meetings and is available for rental to the public. The Recreation Center houses a vast array of programs to accommodate the needs of all city residents. Serving as a model program for neighboring communities, the Special Recreation Services provides recreation and leisure activities for the disabled with the program reaching over 14,800 in attendance. The Nature Center offers visitors of all ages the opportunity to learn more about the natural world and it is expected to attract over 24,000 participants this year. The Senior Activity Center, with its recently installed bocce ball court, provides a large selection of senior programs to keep our senior residents youthful and active. In fact, the completion of the new Senior Active Life Center, a 14,135 square foot gymnasium addition, now offers a wealth of new activities for the City's active senior citizens.

In a continued effort to provide quality services within the city, the municipal phone system is equipped with direct dialing capabilities, thus allowing incoming calls to be quickly received and expedited. The City's general information phone number [586/446-CITY (2489)] serves as the City's "help" line. Establishing a "virtual" City Hall, Sterling Heights' official website (www.sterling-heights.net) can be accessed for informative city news and events. As a matter of fact, the City's "virtual" City Hall has earned numerous distinctions including: the 2003/2004 Golden Web Award from the International Association of Webmasters and Designers for excellence in design, originality, and content; the honor of being named as a "Top Pick" among municipal websites by *MuniNet Guide and Review*; and the Apex Award for Publication Excellence for Most Approved Website. The City's e-mail address (cityhall@sterling-heights.net) provides the opportunity to conveniently communicate with City Hall by means of e-mail transmissions. The City also offers free automatic electronic mail service for residents who want up-to-date information on city activities. Residents can e-mail their request to the City to be included in the distribution of city announcements, press releases, and other city information. A *Job Posting E-Mail Subscription Service* is also featured on the City's website. This free service provides the opportunity for those searching for employment to register for automatic electronic notifications of available job positions with the City of Sterling Heights. A new full-color publication entitled, "Life At Its Best - Getting to Know Us", has been created to welcome new residents, as well as introduce visitors and potential residents to the city. Sterling Heights is the first city in Macomb County to debut a municipal radio station, WPTC-1700 AM, which provides residents with round-the-clock information on community activities and emergencies, including up-to-the-minute weather bulletins. Collectively, the redesigned city quarterly publication, *Sterling Heights Magazine*, city website, SHTV, city radio station, and sustained performance rating for city services will continue to support Sterling Heights as the most information-friendly community in southeastern Michigan.

The City's Nice Neighbor Program has been successful, as it has recognized more than 100 residents since its inception in 2003. This popular program honors residents who offer a helping hand to their neighbors; they are recognized at a City Council meeting and also publicized on SHTV, the City's website and magazine.

Healthiest and Active City

A variety of athletic and instructional programs are provided to city residents through the Parks and Recreation Department. The City's Recreation Center promotes active lifestyles and enhances the coordinated youth/career age/senior exercise and health center programs. The updated *Master Parks and Facilities Conceptual Development Plans* were recently adopted to assist in guiding the development of the City's future parks and facilities. With Avis Neighborhood Park as the latest addition to the community's expansive 820-acre network of major parks and neighborhood recreation areas, the City maintains 28 developed park sites and several other undeveloped park properties dedicated to recreational purposes. City parks provide various recreational and leisure opportunities from baseball diamond complexes to children's tot lots to miles of developed walking, jogging, and bicycle riding pathways. The final phase of the Huron Clinton Metropolitan Authority's (HCMA) county hike/bike path system through the City of Sterling Heights from Riverland Drive to Van Dyke Avenue has been completed, thus creating a path that is more than five miles from border to border within the city. Also, emergency markers were installed along the Clinton River Path System to assist emergency personnel in quickly locating those in need of assistance. Named *Tree City USA* annually since 1985, Sterling Heights supports policies to protect the woodlands, wetlands, and flood plains remaining in the city. In its continuing effort to preserve green space and open spaces, Sterling Heights is the only city in southeast Michigan that maintains a municipal nature preserve, the Plumbrook Forest, located at M-59 and Dequindre Road.

The number of visitors to the Sterling Heights Public Library continues to increase annually with this year's total number of visits exceeding 420,700. The Library offers compact discs, audiocassettes, computerized book and magazine catalogs, computer software for public use, and a collection of fiction books in CD format totaling well over 223,900. Last year, the Library published a local history book, *Sterling Township 1875-1968*, which contains more than 150 historic photographs from the Library's archives. An English as a Second Language (ESL) collection of videos and books has been established which complements the Library's International Language Collection. In addition, videotapes of City Council meetings are available for residents to check out and view at their leisure. The addition of coffee and beverage machines provides visitors with a more relaxed and welcoming ambience when utilizing the facility. Computerized reference services provide access to millions of references, abstracts, and statistics. Residents can search the Suburban Library Cooperative's database of book and non-print material, along with an extensive on-line general interest magazine database from the comfort of their homes. From terminals within the Library, residents continue to enjoy the opportunity to "surf" the Internet. This past year, online computer uses totaled more than 492,900, while program attendance totaled over 25,000. A book drop box is located in the median outside the Library and provides increased services to our residents. This added convenience has been well received as it better accommodates our busy residents.

BEST PLACE TO RAISE A FAMILY

Sterling Heights has developed into one of Macomb County's leading cities, offering a rich combination of commercial and residential life. This successful development results largely from the *Master Land Use Plan*, created by the City in the early 1970s, which provides direction for the community's growth and development. The *Master Land Use Plan* was updated recently to address maximum usage of all property within the city, including residential, multi-family, office, commercial, industrial, and public facilities and roads. The City has enjoyed a solid reputation for municipal planning and growth management. To encourage redevelopment in commercial areas, the City passed its first ever mixed-use ordinance. The commercial and industrial business environment is an exceptional mix of service, product, and technological employers, which allows Sterling Heights to enjoy the extraordinary combination of business opportunities. Employment in the city has also become more diversified in terms of new industry and trained workers. Principal employers within the city include Chrysler LLC, Ford Motor Company, Detroit News Agency, DTE Energy, Lakeside Associates, and General Dynamics.

Property values in Sterling Heights remain high. In 2007, property taxable values increased an inflationary 3.7 percent. Notwithstanding an expected decline in housing values for the current reporting year, the City's overall property values equate to \$13.4 billion. The City has the highest property valuation of any city in the state with the exception of only Detroit. The City continues to provide high quality services at the lowest possible cost. In fact, the City's millage rate has decreased by 2.66 mills or by 19.8 percent since 1988. An important component of government, the Board of Ordinance Appeals has been effective in promoting and enforcing quality community appearance standards which directly affect property values. With the televising of the Board of Ordinance Appeals meetings and the efforts of the administrative Code Committee, the City continues to proactively pursue property maintenance enforcement.

Sterling Heights is a pre-retirement community attracting middle class homeowners with job security and seniority. Many Sterling Heights' homeowners are choosing to reinvest and renovate existing homes as evidenced by the 598 permits issued for residential home additions and/or improvements as compared to the 152 new housing permits issued this past year. The total number of residential permits in 2006/2007 has culminated in representing an investment of over \$28.3 million.

The combination of established neighborhoods and contemporary subdivisions in the community provides housing options ranging from modest to upscale with values over \$500,000. The typical home in Sterling Heights for 2006/2007 had a taxable value of \$81,580, which equates to a market value of \$200,000. The total tax for that home in the Utica Community School District was \$2,430, while the total tax for that same home in the Warren Consolidated School District was \$2,952. Of the total tax dollars collected, the City received only \$875 from the average homeowner for a full line of city services. It is estimated that the total average tax for 2007/2008 will be \$2,520 and \$3,061, respectively.

Proposed plans for innovative single-family housing within the city include:

South Hampton	19 Mile between Ryan & Mound Rds.
Hampton South	Schoenherr Rd. between Clinton River & 18 Mile Rds.
Westbrooke Site Condominiums	Plumbrook Rd. between Dodge Park & 17 Mile Rds.
Ashland Meadows Site	
Condominiums	16 1/2 Mile between Lola Dr. & Dodge Park Rd.
Heights Pointe	14 Mile Rd. between Mound Rd. & Defour Dr.
The Woods of North Sterling	19 Mile Rd. between Mound & Ryan Rds.
Maple Woods	15 Mile Rd. between Maple Lane & Schoenherr Rd.
Covington Place Condominiums	Dequindre Rd. between 19 Mile Rd. & Forest Mead Dr.
Plum River Estates	18 1/2 Mile Rd. between Mound & Ryan Rds.
Hannebauer Condominiums	Clinton River Rd. between Hannebauer Lane & Early Dr.
Tyler Manor	19 Mile Rd. between Willsharon St. & Hanks Lane
Rosebrook Condominiums	16 1/2 Mile Rd. between Dodge Park Rd. & Van Dyke Ave.
Elmcrest Woods	Ryan Rd. between 15 Mile Rd. & Veronica Dr.

Newly proposed multiple family developments include:

NCR of Lakeside Towers II	Hayes Rd. south of Shoreline Dr.
Bickford Cottage	Corner of Ryan Rd. & Dobry Dr.
Preserves North No. 3	Dobry Dr. between Ryan & Dequindre Rds.
North Pointe Phase III	Ryan Rd. between 19 Mile Rd. & Dobry Dr.
Toussaint Farms	Saal Rd. between Hope Dr. & 19 Mile Rd.

These developments confirm that the community continues to invest in new residential construction.

Currently, more than 2,500 commercial and industrial businesses, including two of the top 25 “Fortune 500” companies (Chrysler LLC and Ford Motor Company) are located in Sterling Heights. The City's other major principal taxpayers include Detroit News Agency, DTE Energy, Lakeside Associates, and General Dynamics. The existing economic development and redevelopment efforts have been aggressively enhanced as Sterling Heights continues to attract and retain business and industry. An Economic Development Brochure and promotional DVD were developed as part of the City’s renewed Business Recruitment and Retention Program. As a result, recent significant investments and reinvestments include:

Comcast	\$5 million investment with 200 additional jobs
Faurecia	New Sterling Heights facility creating 400 jobs
Ford Motor Company	\$104 million investment at the Ford Transmission Plant
Fodale	Constructing new facility creating more than 100 new jobs
AGS Automotive Systems	Reopening its Sterling Heights facility creating 242 jobs
Chrysler Corporation LLC	\$300 million investment at the Sterling Stamping Plant

Redevelopment opportunities have been actively pursued throughout the city including commercial strip centers and industrial facilities, such as I4 Mile Road and Van Dyke Avenue, I5 Mile and Dodge Park Roads, and numerous other sites along Van Dyke Avenue and the industrial corridor. What's more, City administration recently conducted a business/industry survey to ensure the City is adequately addressing local business needs. Sterling Heights continues to benefit from the expansion of current local employers, as well as additional retail and commercial developments. Sterling Heights has fostered a business environment attractive to national restaurant, retail, and entertainment facilities. In fact, Pei Wei Asian Diner (sister company to national chain, PF Chang's China Bistro) chose to open its first Michigan store in the City of Sterling Heights this past year. Sterling Heights continues to be a hotbed for retail and restaurant activity given the recent openings of Abuelo's Mexican Food Embassy, Bonefish Grill, Cheeseburger in Paradise, Chipotle, H & M Clothing Store, and Traverse City Pie Company, just to name a few. Since 1998, \$1.8 billion has been invested and 2,326 jobs have been created as part of the tax abatement program. This past year, 300 new businesses were established in the city with investments totaling \$238 million. A number of industrial, commercial, and retail developments approved during the past year include:

Atikian Industrial (4 buildings)	I5 Mile between Van Dyke & Mound Rd.	256,500 sq. ft.
Beaumont Hospital	Dequindre Rd. between I9 Mile Rd. & Dobry Dr.	234,000 sq. ft.
Sterling Ponds Addition	Van Dyke Ave. between I4 & I5 Mile Rds.	50,893 sq. ft.
Boulder Design Office Bldg.	Schoenherr Rd. between I4 Mile & Moravian	40,765 sq. ft.
Mancini Lot #6	Mancini Dr. between Van Dyke Ave. & Mound Rd.	32,516 sq. ft.
Detroit News	Progress Dr. between Metropolitan Pkwy. & I7 Mile Rd.	32,120 sq. ft.
Plumbrook Retail & Office Center	Van Dyke Ave. & Plumbrook	19,000 sq. ft.
Suburban Mazda	Van Dyke Ave. between I7 & I8 Mile Rds.	17,428 sq. ft.

Recently, the City sought and received legislative approval to create a Corridor Improvement Authority to enhance the aesthetics along major corridors, such as Van Dyke Avenue. Additionally, the Plumbrook Technology Park, located off I8 ½ Mile Road east of Mound Road, was approved this past year as a *State Certified Business Park*, the first and only certified park in Macomb County. It is this impressive mix of commercial and industrial businesses that has created the City's enviable economic base and low millage rate.

PERFORMANCE MATTERS

The City's strengths continue to be exceptional strategic planning and benchmarking, as well as strong financial management, sound finances with surpluses and significant fund balances stimulated by economic growth, moderately low tax rates, low debt levels, and strengthened wealth levels among its residents. It is with this goal of strong financial management in mind that several of this year's awards were received. Sterling Heights was recognized as being one of just three cities in Michigan to receive all three Government Finance Officers' Association (GFOA) awards: (1) for the 20th consecutive year, Sterling Heights has achieved national recognition with the *Distinguished Annual Budget Presentation Award*; (2) the Popular Annual Financial Report/City Calendar (PAFR) has earned 10 years of recognition for providing residents with an easy-to-read report on the City's economic condition for the past year; and (3) the Comprehensive Annual

Financial Report (CAFR) has achieved national recognition with the *Certificate of Achievement for Excellence in Financial Reporting* award for the past 19 years. In addition, the City once again received an “Outstanding” designation for its budget document.

The City of Sterling Heights enjoys outstanding bond ratings from the following ratings agencies: “Aa2” from Moody’s, “AA” from Standard & Poor’s, and “AA+” from Fitch. We are proud to report that these ratings are among the highest in the state.

The City takes pride in providing various community functions and events throughout the year to residents who can enjoy both city services and local camaraderie. The grand event highlighted this past year was the City’s popular *2007 Sterlingfest Art & Jazz Fair*. A huge success, this annual event once again provided members of the community the opportunity to take pleasure in this summer festivity of fun, crafts, and music.

The Sterling Heights City Council, in cooperation with the Sterling Heights Ethnic Community Committee, has established sister city partnerships with Tetevo, Yugoslavia (1982), Legazpi City, Philippines (1999), Cassino, Italy (2006), and Sorsogon City, Philippines (2007).

The City of Sterling Heights has received many awards and recognitions from various professional associations and municipal service organizations for innovative approaches to service delivery and quality improvements:

- ★ Sterling Heights was rated 37th nationwide and 3rd statewide in *Money Magazine*’s “Top 100 Best Places to Live for 2006”.
- ★ Allstate Insurance recognized Sterling Heights as placing 21st among the nation’s 200 largest cities in 2006 in terms of best drivers and low accident rates.
- ★ The City of Sterling Heights was selected as one of “Metropolitan Detroit’s 101 Best and Brightest Companies to Work For!” by the Michigan Business and Professional Association.
- ★ According to a recent study released by American City Business Journals, Sterling Heights is ranked 7th in the nation and 2nd in Michigan on its list of the least socio-economically stressed large U.S. cities.
- ★ The City of Sterling Heights was rated an A+ and “9th Best Family Friendly Suburban City in the U.S.” by Population Connection, a Washington DC nonprofit environmental organization.
- ★ Sterling Heights is the safest large city in Michigan and the 6th safest city in the nation out of 213 cities with populations between 100,000 & 499,999 as determined by Morgan Quinto Press, 2006.
- ★ Sterling Heights City Center received national distinction as one of “America’s Great Community Places and Public Spaces” by Project for Public Spaces, a national nonprofit educational organization.
- ★ Sterling Heights has been recognized by the National Weather Service as a “Storm Ready Community” because of its proactive measures in preparing for local hazardous weather.
- ★ *Ladies Home Journal* named Sterling Heights the “2nd Best Michigan City” and the “16th Best American City” for women to live and work.
- ★ *Crain’s Detroit Business* listed Sterling Heights among the “hot spots” for residential development in southeast Michigan.
- ★ Sterling Heights won national recognition for its “Sidewalk Inspection Program,” which uses meter readers to report hazardous sidewalk conditions.

- ★ For the past 14 years, Sterling Heights has maintained the lowest combined water and sewer rates in Michigan for cities having over 25,000 residents.

I would like to thank the mayor and City Council, department directors, and employees responsible for contributing to the success and sound financial position of the City. Finance and Budget Director Brian Baker, City Treasurer James Buhlinger, City Controller Leslie Reinhart, Financial Services Manager Rick Sanborn, and staff are especially recognized for their teamwork, cooperation, and commitment to the principles of fiscal management and propriety. Special recognition is also extended to Mary Jo Dombrowski, Management Services Specialist, for her assistance with this report.

The City's employees are working together to preserve and enhance our community. Our mission is to make Sterling Heights the nation's most livable and best-managed city by providing courteous and quality services through teamwork, innovation, and continually striving for excellence on behalf of all.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mark D. Vanderpool", with a long horizontal line extending from the end of the signature.

Mark D. Vanderpool
City Manager

September 21, 2007

Honorable Mayor, City Council, and Citizens
of the City of Sterling Heights
40555 Utica Road
P.O. Box 8009
Sterling Heights, MI 48311-8009

In compliance with state law, this report was prepared in accordance with generally accepted accounting principles (GAAP) and regulations set forth by the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants and its Committee on Governmental Accounting and Auditing, the Treasurer of the State of Michigan, the City Charter, and the Government Finance Officers Association. Pursuant to these requirements, the Office of Financial Services is pleased to submit this Comprehensive Annual Financial Report of the City of Sterling Heights for the fiscal year ended June 30, 2007.

The accuracy and reliability of the accounting system is dependent on adequate internal control. Internal control is a plan of organization under which employees' duties are so arranged and records and procedures so designed as to make it possible to exercise accounting control over assets, liabilities, revenues, and expenditures. To provide a reasonable basis for making the following representation, management of the City of Sterling Heights has established a comprehensive internal control framework that is designed both to protect the City's assets from losses, theft, or misuse and to compile sufficient reliable information for the preparations of the enclosed financial statements in conformity with GAAP. Since the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. Therefore, the accuracy, completeness, and fairness of the financial data herein, including all disclosures, rests with the City's management, who assumes full responsibility for the information presented in this report and asserts that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

In 2004, the Governmental Accounting Standards Board issued Statement No. 43 (GASB No. 43), *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45 (GASB No. 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB No. 43 and No. 45 establish accounting standards for financial reporting of postemployment benefits other than pensions. These benefits include but are not limited to health care, life insurance, and dental insurance for retirees. The City of Sterling Heights has elected to implement GASB No. 43 with the fiscal 2007/2008 financial statements and GASB No. 45 with the fiscal 2008/2009 financial statements in compliance with the guidance provided by the Governmental Accounting Standards Board.

In 2006, the Governmental Accounting Standards Board issued Statement No. 48 (GASB No. 48), *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. GASB No. 48 establishes criteria that governments can use to determine if proceeds received should be reported as revenue or as a liability until earned. Although the City of Sterling Heights has elected to implement GASB No. 48 with the fiscal 2007/2008 financial statements in compliance with the guidance provide by the Governmental Accounting Standards Board, a review of current activity was performed which indicated that adoption of the standard would not have affected the financial statements contained in this report.

In 2006, the Governmental Accounting Standards Board issued Statement No. 49 (GASB No. 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB No. 49 establishes a framework for the recognition and measurement of liabilities related to pollution remediation. Although the City of Sterling Heights has elected to implement GASB No. 49 with the fiscal 2008/2009 financial statements in compliance with the guidance provide by the Governmental Accounting Standards Board, a review of current activity was performed which indicated that adoption of the standard would not have affected the financial statements contained in this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany these basic financial statements in the form of a management's discussion and analysis (MD&A) narrative. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Sterling Heights' MD&A can be found immediately following the report of the independent auditors.

Financial data presented is designed to provide the reader with information to assist in determining both the long-term fiscal health of the City and the City's ability to meet obligations on a short-term basis. The financial statements contained in this report are designed to fairly set forth the financial position and results of operations of the City and include all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs.

Independent Audit

The City Charter and state laws require an annual audit of the financial records and transactions of the City by a firm of independent licensed certified public accountants. This requirement has been complied with and the City's financial statements have received an "unqualified opinion" from Plante & Moran, PLLC, certified public accountants. An unqualified opinion is the best opinion that an organization can receive on its financial statements. It indicates that the auditor's examination has disclosed no conditions that cause them to believe that the financial statements are not fairly stated in all material respects.

In addition, during the current year, an audit was performed in accordance with the requirements of the Single Audit Act Amendments of 1996 (P.L. 104-156). The auditor's reports related specifically to the single audit are issued under separate cover.

Reporting Entity and Services

As required by GAAP, these financial statements present the City of Sterling Heights and related component units. The individual component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

This report includes all funds of the City and encompasses a full range of municipal services including administrative, public information, district court, police, fire, code enforcement, building, development and planning, engineering, public works, parks and recreation, library, and water and sewer services.

Report Organization

This Comprehensive Annual Financial Report was prepared to meet the needs of a broad spectrum of financial statement readers and is divided into the following major sections:

Introductory Section - This section introduces the reader to the City of Sterling Heights and to this report. Included are a letter from the City Manager highlighting economic conditions and major City initiatives, this transmittal letter with continuing disclosure reporting enhancements, the City's organizational chart, a list of principal officials, and a fund organization chart.

Financial Section/Basic Financial Statements - The independent auditor's report, management's discussion and analysis letter, government-wide financial statements, combined fund financial statements, component unit financial statements, and notes to the financial statements are included here. These are the City's basic financial statements and provide an overview for readers who require less detailed information than is contained in the balance of this report.

Financial Section/Required Supplemental Information - This section contains a more detailed comparative analysis of actual revenues and expenditures versus the 2006/2007 budgets for the General, Major Roads, and Community Development Block Grant Funds. Additionally, there are schedules showing the funding progress of both the General Employees and the Police and Fire Defined Benefit Retirement Systems and notes to the required supplemental information.

Financial Section/Other Financial and Supplemental Information - This section contains combining statements for all of the City's nonmajor governmental, fiduciary, and agency funds as well as budget to actual comparative statements for all nonmajor governmental and the major Capital Projects Funds.

Statistical and Continuing Disclosure Section - Although this section contains substantial financial data, these schedules differ from financial statements in that they present some non-accounting data, cover more than the current year, and are designed to reflect social and economic data, financial trends, and the fiscal capabilities of the City.

The continuing disclosure schedules in this section reflect information in accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission and as set forth in the Continuing Disclosure Certificates for issued debt.

Accounting System and Budgetary Controls

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Therefore, the City's accounting system is organized and operated on a "fund basis." Each fund is a distinct, self-balancing accounting entity. A list of funds used by

Sterling Heights is found later in this section and a discussion of the nature of each fund type is found in Note I to the basic financial statements.

An annual budget is adopted in accordance with the legal requirements set forth in the Uniform Budgeting Act, State of Michigan P.A. 621 of 1978. Also required under this Act is a budgetary control to ensure that expenditures do not exceed appropriations. The City maintains this control through the use of an encumbrance system. As purchase orders are issued, corresponding amounts of appropriations are reserved by the use of encumbrances so that appropriations are not overspent. Budget transfers may be made within a budgetary center with approval of the Office of City Management. The City Council approves necessary transfers between budgetary centers or from fund balance periodically. In addition, the Office of City Management monitors department budgets on a monthly basis. Department directors and office managers must justify variances.

General Fund

Since the General Fund receives all City revenues not designated for specific use by state statutes or City Charter, and accounts for most of the services provided to residents, the following is provided to give the financial statement reader a more detailed analysis of the activity within the General Fund.

Revenues and Other Financing Sources	Amount	Percent of Total	Increase (Decrease) from June 30, 2006
Property taxes	\$ 53,437,096	64.1	\$ 3,002,790
Fees and permits	1,784,156	2.1	(202,177)
Federal sources	106,819	0.1	(205,786)
State sources	11,669,984	14.0	(251,295)
Fines and forfeitures	2,563,520	3.1	(310,647)
Charges for services	8,038,601	9.6	245,836
Interest income	2,203,201	2.7	762,254
Special assessments	-	-	(2,141)
Rental income	1,443,651	1.7	86,614
Cable revenue	1,527,988	1.8	156,157
Other	576,405	0.7	126,553
Subtotal	83,351,421	99.9	3,408,158
Transfers from other funds	91,780	0.1	(1,013)
Total	<u>\$ 83,443,201</u>	<u>100.0</u>	<u>\$ 3,407,145</u>

Overall General Fund revenues increased 4.3 percent over the prior year. Property taxes in the General Fund increased by 6.0 percent due to new construction, a 3.3 percent inflationary valuation adjustment for existing property, and an addition of 0.1 mill for the voter-approved Proposal N. Fees and permits revenue was down 10.2 percent due a reduction in building activity in the City. Federal sources decreased by 65.8 percent due to a decrease in operating grant dollars related to homeland security training. Fines and forfeitures revenue decreased by 10.8 percent due to a decrease in ordinance fines and other district court related fees. Interest income increased 52.9 percent due to increased market rates and the implementation of an investment strategy designed to capture greater returns in a stagnant interest rate environment. Rental income increased by 6.4 percent due an increase in equipment rental related to various City projects. Other income increased 28.1 percent due to receipt of Medicare Part-D program reimbursements.

Expenditures and Other Financing Uses	Amount	Percent of Total	Increase (Decrease) from June 30, 2006
General government:			
City administration	\$ 8,129,513	9.8	\$ 349,771
Community and information services	2,432,645	2.9	102,623
41A District Court	2,847,111	3.4	186,524
Public safety:			
Police department	26,658,773	32.2	1,581,383
Fire department	14,827,978	17.9	730,632
Public works:			
City development	2,865,725	3.5	128,286
Public works	8,002,422	9.7	268,259
Refuse collection	4,089,428	5.0	61,111
Recreation and culture:			
Parks and recreation	2,428,267	2.9	114,117
Public library	2,752,230	3.3	197,951
General expenditures	<u>3,698,838</u>	<u>4.5</u>	<u>152,693</u>
Subtotal	78,732,930	95.1	3,873,350
Transfers to other funds	<u>4,042,620</u>	<u>4.9</u>	<u>(84,650)</u>
Total	<u>\$ 82,775,550</u>	<u>100.0</u>	<u>\$ 3,788,700</u>

Total General Fund expenditures increased by approximately 4.8 percent over the prior year. Major factors in the increase over the prior year were a 3.2 percent increase in compensation in compliance with existing labor agreements, a 54.4 percent increase in the funding for retiree health care in compliance with the City's plan to meet the actuarial funding requirements for the retiree health care program on an annual basis going forward, and a 32.3 percent increase in liability insurance cross charges. The primary offset to these increases were an 11.6 percent decrease in the required contribution to the Police and Fire Retirement System, a 57.6 percent decrease in tax tribunal refunds, and a 2.1 percent decrease in the transfers to other funds.

Special Revenue Funds

Special Revenue Funds are so classified because some authority requires special legal restrictions and accounting procedures. The Special Revenue Funds of the City include:

Major Roads - Gas and weight tax revenues received in this fund are used for construction, maintenance, and other authorized operations pertaining to all streets classified as "major" within the City. Total revenues and other sources decreased during the current year by approximately \$0.4 million, primarily due to a decrease in the transfers from the General Fund of \$0.25 million and a decrease in federal grants and state source revenues of \$0.15 million for road construction and maintenance. Total expenditures and other uses decreased by \$2.45 million due to a decrease in the transfer to the Road Bond Debt Retirement Service Fund of \$0.625 million and a planned decrease in capital outlay of \$1.8 million.

Local Roads - This fund provides for the construction, maintenance, and snow and ice control for streets classified as "local" within the City. Total revenue and other sources remained basically unchanged from the prior fiscal year (\$3.73 million versus \$3.67 million). Special assessment revenue received from two new districts established in fiscal 2007 accounted for the small increase of \$0.06 million in the current fiscal year. Total expenditures and other uses decreased by \$0.6 million due to a planned decrease in capital outlay of \$0.5 million and reduction in road maintenance expenditures of \$0.1 million.

Budget Stabilization Fund - In 1999, the City Council created a Budget Stabilization Fund to serve as a rainy day fund for the purpose of preventing future deficits, revenue shortfalls, reductions in services, or to cover expenditures arising from natural disasters. During fiscal 2007, no additional money was added to this fund due to conservative estimates of General Fund revenues. The balance available in the fund remains at \$750,000.

Land and Water Conservation - This fund is used to reflect all activities related to the acquisition and development of parks. Revenue for this fund comes from state grants (\$0.2 million), transfers in (\$0.1 million), which is dedicated to park-land acquisition and improvements. Projects accounted for in this fund include park improvements and capital outlay for recreational facilities and equipment (\$0.1 million).

Public Safety Forfeiture - This fund is used to reflect all activities related to federal, state, and local public safety forfeiture programs. Revenues are recognized when property used in the commission of a criminal act has been both seized and forfeited to the applicable police agency. Expenditures are restricted to law enforcement and/or drug enforcement activities depending on the program from which the revenue was generated. Approximately \$0.4 million in federal forfeitures and \$0.4 million in state and local forfeitures were recognized in 2007. These resources were used to provide the Public Safety staff with training, operational supplies/support, and capital equipment totaling approximately \$0.4 million.

Community Development Block Grant - The City of Sterling Heights is an entitlement community under the federally administered Community Development Block Grant Program. As such, the City receives a proportionate share of monies appropriated by Congress. The funds can only be used for activities that are directed to fulfilling specific objectives as reflected in the current Housing and Community Development Act. The major activities in this fund include improvements to local park(s) including playground equipment, Senior Minor Home Chore, and various Repair Program ventures. In the current fiscal year, both the revenues and expenditures increased by \$0.5 million due to an increase in federal funding and the timing of the expansion of the Senior Active Life Center.

Capital Projects Funds

General Improvements Fund - This fund includes all major capital improvement projects of the City other than special assessment, road, and Enterprise Fund projects. A transfer from the General Fund of \$1.6 million, bond proceeds of \$3.25 million, federal and state sources of almost \$1.3 million, and other revenues of \$0.7 million, funded \$6.6 million of capital expenditures. Included in these costs were renovations to various City buildings, sidewalk repairs and replacement, improvements and construction related to various storm drains, purchase of capital equipment and vehicles for various City departments, and technology improvements within various City buildings. Additionally, a planned transfer of \$1.35 million was made to service the current year debt service requirements in the Settlement Bond Debt Service Fund.

Road Bond Construction Fund - This fund was established to account for road-related construction activity financed with bond proceeds. New bonds totaling \$4.65 million were sold during fiscal 2007. Expenditures in the current year represent completion of various major road reconstruction and expansion projects (\$4.7 million).

Enterprise Fund

For the fiscal year ended June 30, 2007, water and sewer operating revenue increased by 1.8 percent due to a modest rate increase offset by decreases in the volume of water sold as a result of higher than normal precipitation during the summer of 2006. Operating expenses increased \$2.2 million (7.8 percent). Leading factors contributing to this increase were a 5.8 percent increase in the cost of water purchased, a 7.2 percent increase in the rate for sewage processed, and a 4.3 percent increase in the cost of materials and labor. Net nonoperating revenues decreased 53.0 percent due to a decrease in contributions from developers (\$5.6 million) and a decrease in tap fees and frontage charges (\$0.1 million), which was offset by an increase in interest income (\$0.6 million). As a result, the total net assets in the Enterprise Fund decreased to just under \$174.0 million.

	Year Ended June 30		Increase
	2007	2006	(Decrease)
Operating revenues	\$ 25,404,755	\$ 24,944,170	\$ 460,585
Operating expenses	<u>30,290,386</u>	<u>28,106,435</u>	<u>2,183,951</u>
Operating loss	(4,885,631)	(3,162,265)	(1,723,366)
Nonoperating revenues - Net	<u>4,474,329</u>	<u>9,515,163</u>	<u>(5,040,834)</u>
Change in net assets	<u>\$ (411,302)</u>	<u>\$ 6,352,898</u>	<u>\$ (6,764,200)</u>
Number of customers:			
Residential	35,021	34,850	171
Commercial/Industrial	4,477	4,272	205
Approximate number of cubic feet sold (000s)	789,033	852,661	(63,628)

Internal Service Fund

Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit on a cost-reimbursement basis.

Self-insurance Fund - The Self-insurance Fund was established in 1986 and is used to record the insurance activities related to liability and property claims, active employee health care, workers' compensation, and short-term disability, which are funded by the City. Revenues in the Self-insurance Fund are the result of charges to the General and Water and Sewer Funds based on underwriters' estimates or the City's estimates using historical data. Expenses in this fund include reinsurance charges, administrative fees, claims expense, and provisions for both reported and unreported claims. The provision for incurred but not reported claims (IBNR) is \$1.8 million and is reported as part of the provisions for uninsured losses and liabilities. There was a decrease in total net assets for the year of \$6.3 million due to operating and interest income of \$3.5 million combined, which was offset by a transfer of \$9.7 million in restricted net assets to the Settlement Bond Debt Service Fund for the purpose of defeasing a portion of the 2015 and all of the 2016 through 2018 bonds in compliance with the requirements contained within the bond issuance documents. As a result, unrestricted net assets increased to \$16.2 million at June 30, 2007, enabling a reserve for future self-insurance needs.

Fiduciary Funds

Fiduciary Funds are established to account for assets held by the governmental unit in a trustee capacity or as an agent for individuals, private organizations, and other governmental units and/or funds. The Fiduciary Funds of the City include:

Pension Trust - General Employees' Retirement System - The actuarially determined value of assets available for benefits in the General Employees' Retirement System on December 31, 2006 (the date of the most recent actuarial valuation) was \$118.9 million. A five-member board of trustees manages this fund under the provisions of the City of Sterling Heights' defined benefit pension ordinance as amended by various labor agreements. This pension fund was 124.2 percent funded as of December 31, 2006.

Pension Trust - Police and Fire Retirement System - The actuarially determined value of assets available for benefits as of December 31, 2006 (the date of the most recent actuarial valuation) was \$204.7 million. A five-member board of trustees manages this system under the provisions of P.A. 345 as amended by various labor agreements. This pension fund was 130.7 percent funded as of December 31, 2006. A separate tax was levied to provide for the City's \$2,646,459 police and fire pension contribution for the fiscal year ended June 30, 2007.

Retiree Medical Benefits Fund - The Retiree Medical Benefits Fund was established in fiscal 1989 to account for medical benefits provided to employees during retirement. In fiscal 2002, the City Council adopted the provisions of Michigan Public Act 149 of 2001, establishing the Retirees' Medical Benefits Fund as a trust, and the fund was reclassified from an Internal Service Fund to a Fiduciary Fund. Revenues reported this year were based on actuarial estimated contribution rates of 12.0 percent and 18.0 percent of budgeted payroll for general employees and police and fire employees, respectively. These contribution rates represent a 45.5 percent and 46.9 percent increase in contributions over the prior year, respectively. The deductions of \$4.4 million reflected in this fund relate to medical benefit payments for all eligible retirees and provisions for incurred but not reported claims of \$0.5 million. Net assets at June 30, 2007 were \$13.7 million.

Agency Funds - The City operates two Agency Funds with total assets of \$4.7 million as of June 30, 2007. These include funds for tax collections and a General Agency Fund used primarily for the deposit of various developer fees.

Component Units

Component units, as defined by GASB No. 14, are so classified due to their relationship with the primary government relative to financial accountability of the reporting entity. City component units include:

Economic Development Corporation - The City of Sterling Heights Economic Development Corporation is organized pursuant to Act 338 of the Public Acts of 1974. Its general purpose is to assist and retain local industries and commercial enterprise in order to strengthen and revitalize the economy of the City. The core Economic Development Corporation membership is a nine-member board with up to two additional members, all of which are appointed by the City Council.

Brownfield Redevelopment Authority - This fund was established in fiscal 2001 to account for projects that will improve environmentally distressed areas within the City. The activity within this fund during the current year was to reimburse eligible cost incurred by a local developer in cleaning up a contaminated site located on Sims Road within the city.

Corridor Improvement Authority - The Sterling Heights Corridor Improvement Authority was created during fiscal 2007 in accordance with Act 280 of the Public Acts of 2005. Its general purpose is to facilitate the beautification of public right-of-way and encourage new development/redevelopment of commercial and residential property along the Van Dyke corridor between 18-1/2 Mile Road and the northern city limits. Although a Corridor Improvement Authority Board was established and met several times during fiscal 2007, no revenue or expenditure activity occurred. As a result, this report does not contain financial statements for this activity.

Cash Management

The City complies with Public Act 20 of 1943 (as amended) of the State of Michigan in its cash management activities. Idle cash in all funds, exclusive of the pension systems and the Retiree Medical Benefits Trust Fund, are invested in certificates of deposit, governmental obligations, pooled accounts, commercial paper, and bank trust accounts. Interest income for the governmental and proprietary funds for the current fiscal year is \$5.2 million, an increase of \$2.0 million or 62.5 percent over the fiscal year ended June 30, 2006.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. In the state of Michigan, municipalities are not required to insure or collateralize bank deposits; however, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

The City has an investment committee and an investment policy. The Investment Committee, which consists of the city treasurer, finance and budget director, financial services manager, and controller, meets periodically to evaluate the City's investment activity and to assure that all investments held by the City are within the guidelines of the policy adopted by the City Council. In addition, the City Council receives monthly summary reports as well as an annual report on the results of investment activity.

Tax Rate Limitations

The City Charter provides tax rate limitations for general operations. In addition, the City may levy taxes in excess of the Charter limitation for refuse and police and fire pension requirements pursuant to state law.

Purpose	Authority	Rate (per \$1,000 of State Equalized Valuation)
General Operating	City Charter	\$12.00 *
Refuse Collection and Disposal	Act 298, P.A. of Michigan 1917, as amended	3.00
Police and Fire Pension Requirements	Act 345, P.A. of Michigan 1937, as amended	Amount required to make contribution

* The maximum permitted rate per the Headlee amendment of the Michigan Constitution for fiscal 2007 was unchanged at \$10.8395.

In addition, Article IX, Section 6 of the Michigan Constitution permits the City to levy a millage in excess of the above for (a) all debt service on tax-supported issues that have been approved by the voters for which the City has pledged its full faith and credit, and (b) operating purposes for a specified period of time provided that said increase is approved by a majority of the qualified electors of the local unit.

Risk Management

The City's risk management program is designed to protect financial and human resources in the most cost-effective manner possible. This is accomplished through exposure identification, risk evaluation, risk control, risk funding, and risk management administration. For Sterling Heights, there are six areas of risk management that receive the majority of attention: loss control and safety, property, liability, workers' compensation, employee benefits, and self-insurance administration.

Although the City self-insures many risks, excess insurance is purchased to protect against the financial effects of a catastrophic loss. Liability excess coverage provides up to \$15,000,000 of limits. Property coverage insures \$110.1 million of property values. All buildings and contents are insured at replacement cost value. Liability and property self-insured retentions are \$500,000 and \$50,000, respectively. Excess insurance of workers' compensation is purchased at statutory levels, with a \$150,000 per occurrence self-insured retention. Reinsurance for the self-insured health care risk is purchased to limit City liability to \$200,000 per employee/contract per year. Health care expenditures account for 77.0 percent of all self-insurance expenditures (excluding transfer to the Settlement Bonds Debt Service Fund) during fiscal 2007. The short-term disability risk is fully self-insured and self-administered. Through a combination of self-insurance and insurance, the City has been able to provide the financial resources required to manage the various risks associated with a large city.

Prospects for the Future

The City remains proactive and strategically plans well into the future. Annually, the staff prepares a comprehensive capital-planning document called the "Municipal Improvement Plan." This document captures and explains all planned projects and improvements extending five years into the future. Additionally, estimated expenditures, funding sources, chronological event sequences, associated projects, and their costs supplement this information. The Municipal Improvement Plan provides the financial planning focus for progress into the future for the community.

Economic Outlook - The City of Sterling Heights is a major manufacturing center located in Southeast Michigan, 30 miles north of Detroit. The state of Michigan lost 170,000 manufacturing jobs from 2000-2006. The City of Sterling Heights is not immune to these losses. However, located in Sterling Heights are four major Original Equipment Manufacturing (OEM) plants. Chrysler Stamping and Assembly, as well as Ford Transmission and Axle, are located within the city limits. In 2006, Ford and Chrysler both announced approximately \$500 million of upgrades to their facilities. As a result of the continued investment and platforms launched at these facilities, the City has seen a healthy supply chain market locate here creating new jobs. Many of these suppliers are foreign customers to the OEMs. Faurecia (France), AGS Automotive (Canada), Getrag (Germany) Transmission, Mag Industrial (Canada), and KUKA Robotics (Germany) have announced projects creating close to 900 jobs. General Dynamics Land Systems (GDLS) Corporate Engineering and Technical center is also located within Sterling Heights. GDLS employs close to 3,000 people, mostly engineering, design, and software development professionals. In 2006, GDLS added 220 new employees and over the course of the next three years will add approximately 500 more as part of the Future Combat Systems program that runs through 2012.

In order to better assist the business community, the City Council expanded the City Development Department to include an Economic Development Manager. As a result, programs based on the core components of business retention and attraction, corridor revitalization, and Brownfield redevelopment have been developed and implemented during fiscal 2007. In Michigan's current economic climate, the business retention program has been the most vital.

The future outlook for Sterling Heights remains stable. With the recent investment announcements from Ford and Chrysler, as well as General Motors boasting profitable gains in 2007, the local supplier market is expected to hold steady over the next five to seven years. Many Sterling Heights companies are reaping the benefits of the OEM activity and also have opportunities to grow after securing new contracts. The current industrial vacancy rate in Sterling Heights is approximately 5.5 percent. This rate has fluctuated within 2 percent over the past three years.

Legislation - Legislation has and will continue to impact the City of Sterling Heights well into the future. Through its involvement with the Michigan Government Finance Officers Association and the Michigan Municipal League, the City is actively involved in legislative proposals affecting the financial activities of municipalities.

Personal Property Tax Issues - The case involving the challenge to the State Tax Commission depreciation tables H and I involving the correct valuation of electric transmission and distribution and gas distribution assets has been settled. The Assessing Office has determined that the partial payments made by Detroit Edison and Consumers Energy in the 2000-2003 tax years were equal to the assessed and taxable values that were agreed to by both sides in the written settlement. The settlement also left the previous assessed and taxable values that were determined for the 1997, 1998, and 1999 assessment years in place. The Assessing Office has used these new multipliers since 2004 and will use these multipliers going forward. Therefore, there will be no changes to the assessments in these prior years and there will be no additional taxes collected or refunds required.

The City of Sterling Heights has settled all of the personal property issues involving the Ford Motor Company Transmission Plant. This global settlement involved the personal property sale-leaseback issue for the 1999, 2000, and 2001 assessment years, personal property audit issues for 2003 and 2004, and the personal property corrections for the 2006 assessment year.

On October 1, 2005, the real and personal property assets of the former Visteon Axle Plant transferred back to the Ford Motor Company. Tax Management Associates audited the personal property of this facility for the 2003, 2004, and 2005 assessment years. Their audit resulted in an increase in taxable value of \$8,787,350 for these three tax years. The City Assessor made attempts to negotiate a settlement regarding these audit results in July and September of 2006 but was unsuccessful.

In September 2006, Visteon filed appeals with the State Tax Commission seeking a reduction of its personal property assessments on these three parcels of \$13,546,137 in taxable value for 2003, 2004, and 2005 and also filed appeals on four additional personal property parcels seeking an additional reduction of \$1,032,500 in taxable value for the 2004 and 2005 assessment years. The State Tax Commission (STC) ruled in the City's favor on September 26, 2006 and Visteon appealed its decision to the Michigan Tax Tribunal (MTT) on November 2, 2006. The STC denied Visteon's appeal of the four additional parcels on November 29, 2006 and Visteon appealed these decisions on December 20, 2006. On May 11, 2007, Visteon's attorneys filed a Motion for Summary Disposition and brief in support of the motion, seeking a dismissal of all of the appeals before the MTT. The central argument of this motion is that MCL 211.154 (1) states that taxes computed under the STCs omitted property statute "shall not be spread against the property for a period before the last change of ownership of the property." The motion characterizes the sale of this property (including all of the assets) from Visteon to Ford Motor Company as an "arms length transaction" and all of the claims should therefore be dismissed. On May 29, 2007, the City assessor and City attorney responded to this motion and the MTT has not yet ruled on the motions.

On May 31, 2007, attorneys for the DaimlerChrysler Corporation filed appeals on all of the personal property accounts located in the City, seeking a reduction of 30 percent in the value of all of these properties. This appeal, if approved at their requested reduction, amount would result in a 2007 city tax refund of approximately \$558,000. The City is currently in negotiations with Chrysler tax representatives concerning these pending cases.

Technology Plan - Due to the high level of dependence on technology, the City continues to take the necessary actions to maximize the available resources to provide all municipal employees with the ability to work more efficiently. The City is now in the second year of a recently updated five-year plan. The multi-year plan addresses every aspect of future technology needs across the organization. Several major projects identified in the strategic plan were completed in the 2007 fiscal year including:

- Acquisition and installation of an 800-megahertz Public Safety Radio System
- Replacement of 66 personal computers
- Upgrade to the City's telephone system software
- Installation of fiber optic lines to improve data connection speed at remote City buildings
- Implementation of web-based employee email system
- Replacement of the 41-A District Court computer system
- City website improvements, including electronic access to many City services

Future information technology plans include an employee Intranet, a document imaging and management system, development of wireless applications, a storage area network, and continued ongoing replacement of department personal computers and file servers. Attention will be given to upgrading the City's network hardware to allow for future software applications and to further speed the flow of information between departments.

Major Projects - This past year, the City completed a number of major capital improvement projects including:

- Construction of a Senior Active Life Center addition
- Widening of I 9 Mile Road from Schoenherr to Saal and from Mound to Ryan Road
- Resurfacing of Dobry Drive from Ryan to Dequindre Road
- Reconstruction of Plumbrook Road between I 7 Mile Road and Van Dyke
- Completion of numerous neighborhood road improvements

Financial Strength - On a budgetary basis, the General Fund revenues have slightly exceeded expenditures for the past 10 years. As a whole, the City of Sterling Heights is in a better position to withstand any future constraints than most Michigan municipalities. For fiscal 2007-2008, the operating budget contains a total millage of 10.725 (the second lowest rate of any of the comparable full-service communities within 20 miles of the City). The current undesignated, unreserved fund balance equates to approximately 15 percent of the 2007-2008 fiscal year General Fund budget. The 9.2256 operating levy is well below the 12 mill limitation in the City Charter and the 10.8395 Headlee maximum allowable levy. The creation and prior year funding of a Budget Stabilization Fund places an emphasis on future planning and maintaining a visionary perspective on the City's financial strength and soundness.

Conservative revenue, investment, debt, and reserve budget policies are in place to maintain a controlled spending approach that the residents of Sterling Heights have come to expect from their city government. We believe our continued financial integrity and stability, as well as the vision and forthright perspective of our elected leaders and administration, will enable Sterling Heights to weather any uncertainties of the future.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Sterling Heights, Michigan for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

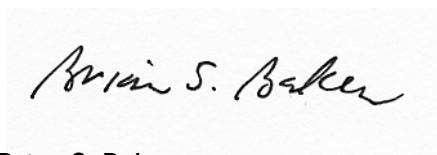
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Sterling Heights, Michigan has received a Certificate of Achievement for the last 19 consecutive years (fiscal years 1988-2006). We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

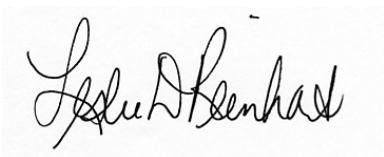
Acknowledgments

The preparation of this Comprehensive Annual Financial Report was made possible by the efficient and dedicated service of the entire staff of the Office of Financial Services. We wish to express our sincere appreciation to each of them and to various employees from other offices for their cooperation and assistance. Appreciation is also expressed to the City Council and City Manager for their consistent support throughout the year in matters pertaining to the financial affairs of the City.

Respectfully submitted,

A handwritten signature in black ink that reads "Brian S. Baker". The signature is written in a cursive style with a large, prominent 'B'.

Brian S. Baker
Finance & Budget Director

A handwritten signature in black ink that reads "Leslie D. Reinhart". The signature is written in a cursive style with a large, prominent 'L'.

Leslie D. Reinhart, CPA
Controller

A handwritten signature in black ink that reads "Rick J. Sanborn". The signature is written in a cursive style with a large, prominent 'R'.

Rick J. Sanborn, CPA
Financial Services Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Sterling Heights
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Thomas J. Hawn".

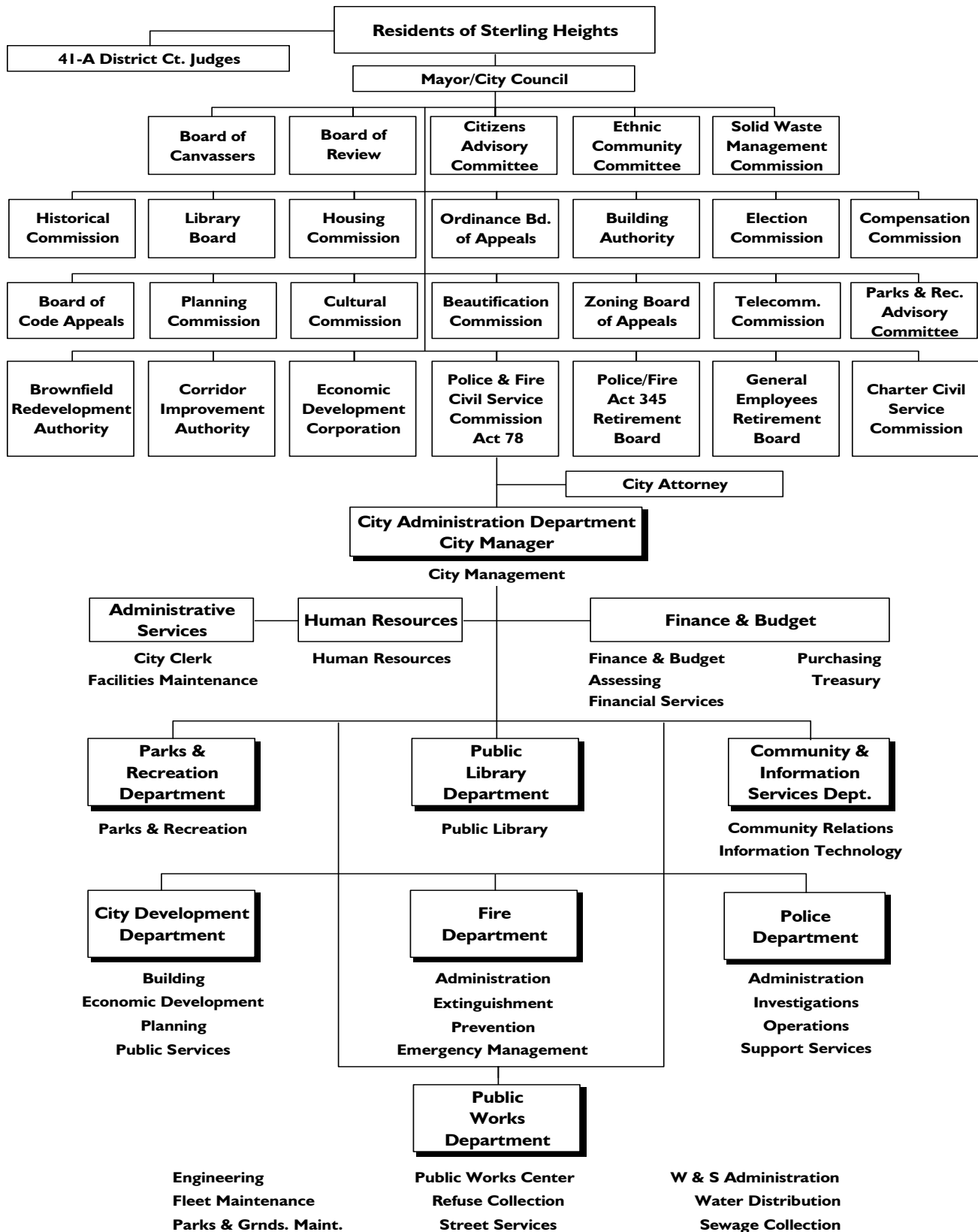
President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

City of Sterling Heights, Michigan

City Organizational Chart



City of Sterling Heights, Michigan

List of Principal Officials

Title	Name
City Manager	Mark D. Vanderpool
Broadcast Services Manager	Michael Crimmins
City Assessor	Matthew J. Schmidt
City Attorney	Jeffery A. Bahorski
City Clerk/Assistant City Manager	Walter C. Blessed
City Development Director/Assistant City Manager	Michael G. Bartholomew
City Engineer	Salvatore Conigliaro
City Planner	Donald A. Mende
City Treasurer	James P. Buhlinger
Communications Manager	Patricia Brockway
Community Relations Director	Steve Guitar
Controller	Leslie D. Reinhart
Economic Development Manager	Lukas Bonner
Emergency Manager	Nicole Miller
Engineering Services Manager	Brent S. Bashaw
Environmental Services Manager	Daniel J. Sears
Facilities Maintenance Manager	Gary Schamehorn
Finance and Budget Director	Brian S. Baker
Financial Services Manager	Rick J. Sanborn
Fire Chief	John H. Childs
Human Resources Director	Dawn L. Demick
Information Technology Manager	Lois J. Gates
Network Administrator	Steve Deon
Parks and Recreation Director	Susan C. Kebbe
Police Chief	David Vinson
Public Library Director	Tammy L. Turgeon
Public Services Manager	Denice A. Gerstenberg
Public Works Director	Guy A. Kebbe
Purchasing Manager	Janice L. Sierzenga
Risk Manager	Mark Carufel

City of Sterling Heights, Michigan

Fund Organization Chart

Governmental Funds

General *	Special Revenue
	Major Roads *
	Budget Stabilization
	Local Roads
	Land and Water Conservation
	Public Safety Forfeiture
	Community Development Block Grant (CDBG)*
Debt Service	Capital Projects
General Drain	General Improvements *
RS&T Debt Service	Road Bond Construction *
Settlement Bond	
Road Bond Debt Retirement	
Limited Tax General Obligation	

Proprietary Funds

Enterprise	Internal Service
Water and Sewer *	Self-insurance

Fiduciary Funds

Trust	Agency
General Employees' Retirement System	Tax Collections
Police and Fire Retirement System	General Agency
Retiree Medical Benefits	

Component Units

Economic Development Corporation
Brownfield Redevelopment Authority
Corridor Improvement Authority

* Major funds under GASB 34



Plante & Moran, PLLC
Suite 300
19176 Hall Road
Clinton Township, MI 48038
Tel: 586.416.4900
Fax: 586.416.4901
plantemoran.com

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit information, each major fund, and the aggregate remaining fund information of the City of Sterling Heights, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Sterling Heights, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component unit information, each major fund, and the aggregate remaining fund information of the City of Sterling Heights, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sterling Heights, Michigan's basic financial statements. The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, statistical, and continuing disclosure sections, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis and retirement systems schedules of funding progress, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical and continuing disclosure sections have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2007 on our consideration of the City of Sterling Heights' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

September 21, 2007

City of Sterling Heights, Michigan

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of narratives and financial statements. This narrative should be considered in conjunction with the additional information presented in the letter of transmittal found on pages xii-xxvii and is intended to serve as an introduction to the City of Sterling Heights' basic financial statements. The basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary and statistical information, as well as continuing disclosure information related to bonded debt issued by the City of Sterling Heights in addition to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of the City of Sterling Heights' finances, in a manner similar to a private sector business. The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Sterling Heights is improving or deteriorating. The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. As a result, revenues and expenses are reported in this statement for some items that only result in cash flows in future fiscal periods (e.g., uncollected receivables and unused vacation leave).

Both of the government-wide statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover costs from user fees and charges for services (business-type activities). The governmental activities include general government, 41A District Court, public safety, public works, and recreation and culture. The business-type activities include the water and sewer operation of the City. The government-wide financial statements include not only the City of Sterling Heights (known as the primary government), but also the legally separate Economic Development Corporation and Brownfield Redevelopment Authority for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the City. Although the Sterling Heights Building Authority is also legally separate, it functions as a department of the City and therefore has been included as an integral part of the primary government.

Fund Financial Statements (which report the City's operation in more detail than the government-wide financial statements) follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities and to demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower, it is useful to compare this information with similar information presented for governmental activities in the government-wide financial statements. This comparison may allow the readers to better understand the long-term impact of the City's short-term financing decisions. Both the balance sheet and the statement of revenues, expenditures, and changes in fund balances for the governmental funds provide a reconciliation to facilitate this comparison between governmental funds and government activities.

The City of Sterling Heights maintains 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Roads Fund, Community Development Block Grant Fund, General Improvement Fund, and Road Bond Construction Fund, all of which are considered to be major funds. Data for the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Sterling Heights adopts an annual appropriated budget for all of its governmental funds. Budgetary comparison statements have been provided for all the governmental funds to demonstrate budgetary compliance.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions presented in the business-type activities in the government-wide financial statements. The City of Sterling Heights uses an Enterprise Fund to account for its water and sewer operation. This fund is considered a major fund of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among various functions. The City of Sterling Heights uses an Internal Service Fund to account for its self-insurance program. Because this program predominantly benefits governmental rather than business-type functions, it has been consolidated within the governmental activities in the government-wide financial statements.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Required Supplemental Information concerning the City's progress in funding its obligations to provide pensions and other postemployment benefits to its employees is also presented in this section of the report. Also included are the budgetary comparison statements for the General Fund and major Special Revenue Fund as well as budget footnotes. This required supplemental information is in addition to the basic financial statements and accompanying notes.

Other Financial and Supplemental Information, such as the combining statements and certain budget comparison statements referred to earlier, as well as continuing disclosure information required by bond covenants, is presented immediately following the required supplemental information.

The City of Sterling Heights as a Whole

The City's combined net assets increased 2.5 percent from a year ago, increasing from \$367.4 million to \$376.7 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$9.7 million in net assets, or 5.0 percent, during fiscal 2007. This increase was attributable to operating income of \$9.7 million plus a reduction in restricted net assets of \$7.4 million, offset by a net increase in capital assets of \$3.9 million and a net decrease in non-capital assets and liabilities of \$3.5 million.

The business-type activities experienced a decrease in net assets of approximately \$0.4 million. This was primarily due to nonoperating revenues and contribution of water and sewer lines by developers totaling \$4.5 million, combined with offsetting operating losses of \$4.9 million. In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of June 30, 2007 to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current assets	\$ 51.0	\$ 48.0	\$ 33.6	\$ 32.4	\$ 84.6	\$ 80.4
Noncurrent assets:						
Restricted and other assets	4.1	11.8	7.4	7.0	11.5	18.8
Capital assets	212.2	204.5	137.4	139.1	349.6	343.6
Total assets	267.3	264.3	178.4	178.5	445.7	442.8
Liabilities						
Current liabilities	8.3	13.8	4.2	3.9	12.5	17.7
Noncurrent liabilities	56.3	57.5	0.2	0.2	56.5	57.7
Total liabilities	64.6	71.3	4.4	4.1	69.0	75.4
Net Assets						
Invested in capital assets - Net of related debt	175.6	171.7	137.4	139.1	313.0	310.8
Restricted	6.6	14.0	7.4	7.0	14.0	21.0
Unrestricted	20.5	7.3	29.2	28.3	49.7	35.6
Total net assets	<u>\$ 202.7</u>	<u>\$ 193.0</u>	<u>\$ 174.0</u>	<u>\$ 174.4</u>	<u>\$ 376.7</u>	<u>\$ 367.4</u>

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Unrestricted net assets for the governmental activities, which is the part of net assets that is available to finance day-to-day operations and future growth, was \$20.5 million at June 30, 2007. This represents an increase of \$13.2 million. The major factors contributing to this increase were operating income of \$9.7 million and the reduction in long-term debt not related to capital assets of \$9.98 million offset by the \$3.9 million increase in capital assets above related debt, a \$1.8 million increase in restricted assets and a \$0.7 million reduction in long-term liabilities for compensated absences.

The following table shows the changes in net assets (in millions of dollars) as of June 30, 2007 and the prior year:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$ 14.2	\$ 13.0	\$ 25.4	\$ 24.9	\$ 39.6	\$ 37.9
Operating grants and contributions	9.1	9.2	-	-	9.1	9.2
Capital grants and contributions	2.7	2.8	2.7	8.4	5.4	11.2
General revenues:						
Property taxes	55.6	52.6	-	-	55.6	52.6
State-shared revenues	10.7	11.0	-	-	10.7	11.0
Interest	3.4	2.0	1.8	1.2	5.2	3.2
Gain on sale of capital assets	0.2	0.2	-	-	0.2	0.2
Insurance proceeds	-	18.8	-	-	-	18.8
Other non-program generated revenues	1.5	1.4	-	-	1.5	1.4
Total revenue	97.4	111.0	29.9	34.5	127.3	145.5
Program Expenses						
General government	10.3	8.7	-	-	10.3	8.7
41A District Court	3.0	2.9	-	-	3.0	2.9
Public safety	44.0	41.3	-	-	44.0	41.3
Public works	22.6	24.2	-	-	22.6	24.2
Recreation and culture	5.9	6.0	-	-	5.9	6.0
Interest on long-term debt	1.9	2.5	-	-	1.9	2.5
Water and sewer	-	-	30.3	28.1	30.3	28.1
Total program expenses	87.7	85.6	30.3	28.1	118.0	113.7
Increase (Decrease) in Net Assets	9.7	25.4	(0.4)	6.4	9.3	31.8
Net Assets - Beginning of year	193.0	167.6	174.4	168.0	367.4	335.6
Net Assets - End of year	<u>\$ 202.7</u>	<u>\$ 193.0</u>	<u>\$ 174.0</u>	<u>\$ 174.4</u>	<u>\$ 376.7</u>	<u>\$ 367.4</u>

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's total governmental revenues decreased by approximately \$13.6 million due to the recognition of one-time revenues from insurance proceeds totaling \$18.8 million last year offset by increased property tax revenues of \$3.0 million (due to levying Proposal N voted millage of .10 mills for the first time and increased taxable values), increased interest income of \$1.4 million (due to higher rates of interest and extended portfolio duration), and increases related to charges for services of \$1.2 million (due to increased contributions of local roads from developers).

Expenses increased by approximately \$2.1 million or 2.5 percent over the last fiscal year. Contributing to the increase was the annual 3 percent wage increase contained in the City's labor contracts and increased contributions to the City's retiree healthcare trust. These increases were offset by the reduction in the required contribution to the Police & Fire Retirement System (\$0.3 million) and an increase in net income of the Self-Insurance Fund that resulted in a decrease in consolidated expenses (\$1.1 million).

During the year, the City continued meeting the actuarial required contributions for both defined benefit pension systems and increased funding set aside in trust for retiree medical benefits by 53 percent over the prior year. This is important for the City since future taxpayers should not be required to fund benefit payments that were earned in the current period.

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water, which is purchased from the City of Detroit Water System, to nearly all residents. Rate increases for fiscal year 2007 were less than the increase received from the City of Detroit due to the budgeted use of unrestricted net assets accumulated over prior years. The City provides sewage treatment to approximately 99 percent of its residents through the Macomb County Sewage Treatment Plant. Rate increases for sewage treatment were also below the increase in rates charged by Macomb County. During fiscal 2007, the water and sewer system saw an approximately 7.5 percent decrease in the volume of water sold and sewage treated. This decrease is consistent with the weather conditions over the fiscal year and the City's efforts to reduce water consumption overall in order to control rate increases from the City of Detroit. As in prior years, a major source of growth in the system was the water and sewer lines contributed by developers. During fiscal year 2007, developers contributed \$2.6 million of water and sewer lines and tap fees/frontage charges to the City. This contribution, plus interest income of \$1.8 million, offset the \$4.9 million operating loss realized and resulted in a \$0.4 million reduction in net assets during fiscal year 2007.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The City's Funds

Our analysis of the City's major funds begins on pages 15 and 16, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51 major and local roads revenue and voted debt retirement property tax millages. The City's major funds for 2007 include the General Fund, the Major Roads Fund, the Community Development Block Grant Fund, the General Improvements Fund, and the Road Bond Construction Fund.

The General Fund pays for most of the City's governmental services. The most significant of these are police and fire services, which incurred expenditures of approximately \$41.5 million in 2007, before depreciation and other full accrual accounting adjustments. The general operating millage levied by the City supports these two services. Fund balance in the General Fund increased by \$0.7 million primarily due to increases in revenues over original budgeted projections (\$0.5 million) and to cost savings under original budget projections by various departments throughout the fiscal year (\$0.2 million).

Fund balance in the Major Roads Fund increased by \$1.1 million due to planned revenues in excess of expenditures (\$0.8 million) to accumulate resources for future capital projects and savings on current capital projects (\$0.3 million).

The Community Development Block Grant Fund accounts for federal grants received from the U.S. Department of Housing and Urban Development on a reimbursement basis. As a result, each year, revenues equal expenditures and net assets are not accumulated over time. During fiscal year 2007, the total revenues and expenditures increased by \$.5 million over the previous fiscal year primarily due to increased capital outlay related to the expansion of the Senior Activity Center operated by the Sterling Heights Parks and Recreation Department.

The General Improvements Fund and Road Bond Construction Fund are the two funds used by the City to account for most capital outlay expenditures. Transfers from other funds or debt issuance proceeds support the activities within these funds. The General Improvements Fund had a decrease in fund balance (\$1.1 million) due to capital outlay and transfers out for debt service in compliance with the adopted budget. The Road Bond Construction Fund had a minor increase in fund balance (\$0.03 million) during fiscal year 2007 due to cost savings related to budgeted capital outlay.

General Fund Budgetary Highlights

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Over the course of the year, City administration and the City Council monitor and amend the budget to take into account unanticipated events that occur during the year. The budget was amended twice during fiscal 2007. Final budgeted expenditures were slightly lower than the original budget due to department expenditure savings achieved throughout the year mainly as the result of employee retirements and staff turnover. The additional cost of tax tribunal refunds was offset by the first year budgeted debt payment for the Public Safety Radio System for which payments will not begin until the next fiscal year. The total General Fund revenue budget increased by 0.8 percent due to higher than anticipated interest on investments and additional cable revenues. The budget for the remaining non-tax revenues was reduced at year end due to a decline in state funding, building activity, and 41-A District Court revenues. The overall revenue increase is the primary reason the City was able to contribute nearly \$700,000 to General Fund reserves for the fiscal year.

At year end, actual General Fund expenditures came in at 99.9 percent or \$48,910 under budget due to continued department operational efficiencies. General Fund revenues came in at 99.8 percent or \$187,079 under budget as a result of lower year-end building, engineering, and court revenues.

Capital Assets and Debt Administration

At the end of fiscal year 2007, the City had \$313.0 million invested (net of related debt) in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, infrastructure assets (roads, bridges, sidewalks, and storm drains in which it has invested since 1980), and water and sewer lines. The value of the infrastructure assets, net of depreciation, contained in this report is \$120.3 million and \$116.9 million for fiscal years 2007 and 2006, respectively (see Note 4 of the notes to the basic financial statements for additional information).

The City's general obligation bonds maintained ratings of "Aa2" from Moody's, "AA+" from Fitch, and "AA" from Standard & Poor's throughout the year. During the fiscal year, the City issued \$4.65 million par value in Michigan Transportation Fund bonds. The proceeds from this bond issue were used to finance various improvements to existing major roads. The City also issued \$3.25 million in Limited Tax General Obligation bonds to partially finance the construction of a major addition to the Sterling Heights Senior Activity Center and the acquisition for an 800 MHZ emergency radio system. Additionally, the City used \$9.7 million in insurance proceeds received in fiscal year 2006 to partially defease \$9.15 million of principal of the 2004 General Obligation Judgment Funding bonds. Interest expense reductions in future years resulting from the defeasance of a portion of the 2015 and all of the 2016 through 2018 bonds will be \$5.1 million over the original life of the bonds. Additional debt service during fiscal year 2007 consisted of \$4.85 million in principal and \$1.9 million in interest after recognition of amortized premiums (see Note 7 of the notes to the basic financial statements for additional information).

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The ratio of net general bonded debt to assessed valuation and the amount of net bonded debt per capita are as follows:

	2007	2006
Net direct bonded debt	\$ 28,915,000	\$ 37,935,000
Ratio of debt to total taxable value	0.4622%	0.6277%
Debt per capita	\$ 223.38	\$ 292.56

Economic Factors and Next Year's Budgets and Rates

Property taxes make up nearly 65 percent of the City's General Fund budget. The City has been able to reduce the property tax millage rate by 2.66 mills or 19.8 percent since 1988, saving the average resident \$2,693 in taxes over the 20-year period. Strong expenditure controls and past growth in the City's tax base had helped to accomplish this planned tax rate reduction. In 2007, the City's tax rate increased by 0.10 mills as the voter-approved Proposal N local road millage was implemented for the first time, which allowed the City to fund needed repairs to neighborhood roads. The City's millage rate of 10.725 compares very favorably to surrounding communities in Southeast Michigan. In fact, the City's tax rate is lower than all but one of the 77 full-service communities located within 20 miles. Not only do most of these cities have higher tax rates, almost all have also increased millage rates over the years.

Tax rate reductions experienced in the past are not presently forecasted. New growth and development in the City has diminished from a 4 percent rate in the late 1990s to 1.8 percent in 2007 with a projection of 0.9 percent for fiscal year 2008. The City's second largest revenue source, state revenue sharing, has been cut by the State of Michigan for each of the last six years. As a result of these cuts, the City has lost nearly 20 percent of its revenue-sharing dollars. It is likely the City will see a reduction again due to the State's continued structural deficit problems. Building and engineering revenues are trending downward due to less new development in the City. In addition, residential property assessments are expected to see a reduction for the first time next year due to a decline in home prices in Michigan. However, Proposal A taxable values are projected to increase based on the rate of inflation. If present trends continue, falling home prices could adversely affect City tax revenues within three years.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The City continues to take action to keep its expenditures and revenues in line and to operate with relatively low personnel costs due to its efficient labor force. Three labor contracts have been settled and seven are currently under negotiation with an emphasis toward reducing costs related to current and future employees' active and postemployment health care. The City has received two bond-rating upgrades in the past several years and during 2007 received confirmation of the existing ratings. During the year, the City received payment from two insurance companies for over half of the Hillside Productions settlement. These funds were used to defease a portion of the outstanding judgment bonds and to reimburse the City for non-bonded settlement and legal costs. The City's pension systems are fully funded and have recently increased their funding levels. The City has significantly increased its funding for future retiree medical costs, currently contributing 21.9 percent of payroll. The City continues to investigate potential new revenue opportunities and will continue to monitor and adjust expenditures to the revenue base in order to ensure that adequate fund balance reserves are maintained.

The City purchases its water and sewer services from the City of Detroit. Historically, the City has not passed the full Detroit water and sewer rate increase to our customers. It is becoming increasingly difficult to continue this practice. Over the past several years the City has changed its water and sewer rate structure from a declining tier to an inclining tier. This has facilitated the recovery of costs from the system's largest users who are contributing most to the higher peak costs, while at the same time lowering the cost to the average user. The City prides itself on having the lowest combined residential water and sewer rate of any city in the state with 25,000 or more residents. The City continues to work to ensure that Sterling Heights retains the lowest rates in the state.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the resources it receives. If you have any questions about this report or need additional information, we invite you to contact the administration offices at City Hall.

City of Sterling Heights, Michigan

Statement of Net Assets June 30, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 9,202,904	\$ -	\$ 9,202,904	\$ 9,039
Investments - At fair value (Note 3)	37,065,525	23,509,619	60,575,144	-
Receivables:				
Customers	-	6,777,647	6,777,647	-
Special assessments - Current	53,653	-	53,653	-
Accrued interest	367,238	262,343	629,581	-
Other	711,261	-	711,261	-
Internal balances	(2,597,081)	2,597,081	-	-
Due from other governmental units	4,124,380	254	4,124,634	-
Prepaid costs and other assets	1,589,250	-	1,589,250	-
Inventories	495,921	382,377	878,298	-
Special assessments	384,247	2,365	386,612	-
Restricted assets (Note 8)	1,942,527	7,418,300	9,360,827	-
Loans receivable (Note 9)	1,739,615	-	1,739,615	-
Capital assets:				
Nondepreciable (Note 4)	50,729,543	2,289,058	53,018,601	-
Depreciable - Net (Note 4)	161,494,903	135,124,001	296,618,904	-
Total assets	267,303,886	178,363,045	445,666,931	9,039
Liabilities				
Accounts payable	2,373,703	3,900,554	6,274,257	600
Accrued and other liabilities	2,873,545	159,174	3,032,719	-
Provision for uninsured losses and liabilities (Note 10)	841,867	-	841,867	-
Due to other governmental units	46,451	-	46,451	-
Unearned revenue (Note 6)	2,187,760	99,190	2,286,950	-
Noncurrent liabilities (Note 7):				
Due within one year	6,223,672	62,975	6,286,647	-
Due in more than one year	50,085,740	146,783	50,232,523	-
Total liabilities	64,632,738	4,368,676	69,001,414	600
Net Assets				
Invested in capital assets - Net of related debt	175,544,446	137,413,059	312,957,505	-
Restricted:				
Roads	3,731,226	-	3,731,226	-
Public safety	809,425	-	809,425	-
Debt service	118,705	-	118,705	-
County drains (Note 8)	1,942,527	-	1,942,527	-
Ordinance requirements (Note 8)	-	7,418,300	7,418,300	-
Unrestricted	20,524,819	29,163,010	49,687,829	8,439
Total net assets	\$ 202,671,148	\$ 173,994,369	\$ 376,665,517	\$ 8,439

City of Sterling Heights, Michigan

			Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
	Expenses	Charges for Services		
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 10,348,927	\$ 2,022,680	\$ 767	\$ -
41A District Court	2,992,184	2,185,724	151,597	-
Public safety	43,995,464	1,326,061	849,676	1,530,230
Public works	22,603,155	8,125,228	7,324,439	-
Recreation and culture	5,890,651	563,152	822,434	1,108,484
Interest on long-term debt	1,922,125	-	-	-
Total governmental activities	87,752,506	14,222,845	9,148,913	2,638,714
Business-type activities - Water and Sewer	30,290,386	25,404,755	-	2,662,317
Total primary government	<u>\$ 118,042,892</u>	<u>\$ 39,627,600</u>	<u>\$ 9,148,913</u>	<u>\$ 5,301,031</u>
Component units:				
Economic Development Corporation	\$ 9,883	\$ -	\$ 8,000	\$ -
Brownfield Redevelopment Authority	44,942	-	32,232	-
Total component units	<u>\$ 54,825</u>	<u>\$ -</u>	<u>\$ 40,232</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared general revenues				
Interest				
Gain on sale of capital assets				
Other non-program generated revenues				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2007

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (8,325,480)	\$ -	\$ (8,325,480)	\$ -
(654,863)	-	(654,863)	-
(40,289,497)	-	(40,289,497)	-
(7,153,488)	-	(7,153,488)	-
(3,396,581)	-	(3,396,581)	-
(1,922,125)	-	(1,922,125)	-
(61,742,034)	-	(61,742,034)	-
-	(2,223,314)	(2,223,314)	-
(61,742,034)	(2,223,314)	(63,965,348)	-
-	-	-	(1,883)
-	-	-	(12,710)
-	-	-	(14,593)
55,624,617	-	55,624,617	-
10,675,667	-	10,675,667	-
3,383,824	1,812,012	5,195,836	1,019
227,321	-	227,321	-
1,527,988	-	1,527,988	-
71,439,417	1,812,012	73,251,429	1,019
9,697,383	(411,302)	9,286,081	(13,574)
192,973,765	174,405,671	367,379,436	22,013
\$ 202,671,148	\$ 173,994,369	\$ 376,665,517	\$ 8,439

City of Sterling Heights, Michigan

	General Fund	Major Roads	Community Development Block Grant	General Improvements
Assets				
Cash and cash equivalents (Note 3)	\$ 4,515,577	\$ 366,259	\$ 792	\$ 284,979
Investments - At fair value (Note 3)	15,616,850	1,650,000	-	2,594,650
Receivables:				
Special assessments:				
Current	-	-	-	15,510
Deferred	-	-	-	40,961
Accrued interest	207,918	9,327	-	18,153
Other	728,243	-	-	-
Prepaid costs and other assets	97,986	-	-	-
Due from other funds (Note 5)	319,089	-	-	-
Due from other governmental units	808,989	1,034,280	54,788	19,816
Inventories	495,921	-	-	-
Restricted assets (Note 8)	-	-	-	1,942,527
Rehabilitation loans receivable (Note 9)	-	-	1,739,615	-
Total assets	<u>\$ 22,790,573</u>	<u>\$ 3,059,866</u>	<u>\$ 1,795,195</u>	<u>\$ 4,916,596</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,542,699	\$ 177,539	\$ 47,413	\$ 395,437
Accrued and other liabilities	2,055,728	7,320	-	86,080
Due to other funds (Note 5)	2,899,892	140,110	8,167	8,672
Due to other governmental units	46,451	-	-	-
Deferred revenue (Note 6)	527,908	-	1,739,615	1,983,489
Total liabilities	7,072,678	324,969	1,795,195	2,473,678
Fund Balances				
Reserved for:				
Encumbrances	86,055	25,000	-	300,813
Inventory	495,921	-	-	-
Prepaid costs	97,986	-	-	-
Unreserved - Reported in (Note 14):				
General Fund	15,037,933	-	-	-
Special Revenue Funds	-	2,709,897	-	-
Capital Projects Funds	-	-	-	2,142,105
Debt Service Funds	-	-	-	-
Total fund balances	<u>15,717,895</u>	<u>2,734,897</u>	<u>-</u>	<u>2,442,918</u>
Total liabilities and fund balances	<u>\$ 22,790,573</u>	<u>\$ 3,059,866</u>	<u>\$ 1,795,195</u>	<u>\$ 4,916,596</u>

**Governmental Funds
Balance Sheet
June 30, 2007**

Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 156,849	\$ 1,540,662	\$ 6,865,118
500,000	1,550,000	21,911,500
-	38,143	53,653
-	343,286	384,247
3,111	10,264	248,773
-	-	728,243
183,547	9,440	290,973
-	144	319,233
-	311,174	2,229,047
-	-	495,921
-	-	1,942,527
-	-	1,739,615
\$ 843,507	\$ 3,803,113	\$ 37,208,850

\$ 102,020	\$ 27,971	\$ 2,293,079
37,821	25,149	2,212,098
-	162,140	3,218,981
-	-	46,451
-	343,286	4,594,298
139,841	558,546	12,364,907

-	24,906	436,774
-	-	495,921
183,547	-	281,533
-	-	15,037,933
-	3,100,956	5,810,853
520,119	-	2,662,224
-	118,705	118,705
703,666	3,244,567	24,843,943
\$ 843,507	\$ 3,803,113	\$ 37,208,850

City of Sterling Heights, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets June 30, 2007

Total Fund Balances for Governmental Funds	\$ 24,843,943
Amounts reported for governmental activities in the statement of net assets are different because:	
Certain receivables are expected to be collected over several years in the General Fund, Special Revenue Funds, and Debt Service Funds	447,029
Receivables related to state-shared revenues are reported in the statement of net assets at the time they are earned, without regard to timeliness of remittance by the State	1,895,333
Restricted assets held by Macomb County to be used over several years and which are not available to pay for current year expenditures	1,942,527
Capital assets used in governmental activities are not financial resources and are not reported in the funds	212,224,446
Long-term liabilities not due and payable in the current period are not reported in the funds	(49,525,000)
Compensated absences that are not requested prior to fiscal year end are not payable in the current period and are not included in the funds	(4,694,323)
Bond premiums are amortized over the life of the bonds, while recognized as an other financing source in the funds when received	(661,447)
Internal Service Fund is included as part of governmental activities	16,198,640
Net Assets of Governmental Activities	<u>\$ 202,671,148</u>

City of Sterling Heights, Michigan

	General Fund	Major Roads	Community Development Block Grant	General Improvements
Revenues				
Property taxes	\$ 53,437,096	\$ -	\$ -	\$ -
Fees and permits	1,784,156	-	-	-
Federal sources	106,819	113,419	1,223,013	929,256
State and local sources	11,669,984	5,231,108	-	357,222
Fines and forfeitures	2,563,520	-	-	-
Charges for services	8,038,601	-	-	-
Interest income	2,203,201	44,247	-	138,562
Special assessments	-	-	-	23,371
Rental income	1,443,651	-	-	-
Cable revenue	1,527,988	-	-	-
Other	576,405	269,376	4,579	555,231
Total revenues	83,351,421	5,658,150	1,227,592	2,003,642
Expenditures				
Current:				
General government	10,562,158	-	-	-
41A District Court	2,847,111	-	-	-
Public safety	41,486,751	-	-	-
Public works	14,957,575	1,726,644	215,122	-
Recreation and culture	5,180,497	-	-	-
General expenditures	3,698,838	-	-	-
Capital outlay	-	703,091	920,690	6,633,421
Debt service	-	-	-	-
Total expenditures	78,732,930	2,429,735	1,135,812	6,633,421
Excess of Revenues Over (Under) Expenditures	4,618,491	3,228,415	91,780	(4,629,779)
Other Financing Sources (Uses)				
Proceeds from long-term debt	-	-	-	3,250,000
Bond premium	-	-	-	26,815
Transfers in	91,780	1,100,000	-	1,600,720
Transfers out	(4,042,620)	(3,200,000)	(91,780)	(1,346,815)
Total other financing sources (uses)	(3,950,840)	(2,100,000)	(91,780)	3,530,720
Net Change in Fund Balances	667,651	1,128,415	-	(1,099,059)
Fund Balances - Beginning of year	15,050,244	1,606,482	-	3,541,977
Fund Balances - End of year	\$ 15,717,895	\$ 2,734,897	\$ -	\$ 2,442,918

Governmental Funds
Statement of Revenues, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2007

Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 2,187,521	\$ 55,624,617
-	-	1,784,156
-	382,638	2,755,145
-	2,635,973	19,894,287
-	-	2,563,520
-	-	8,038,601
21,729	103,495	2,511,234
-	106,711	130,082
-	-	1,443,651
-	-	1,527,988
51,577	54,228	1,511,396
73,306	5,470,566	97,784,677
-	-	10,562,158
-	-	2,847,111
-	124,226	41,610,977
-	1,835,221	18,734,562
-	-	5,180,497
-	92,246	3,791,084
4,694,041	1,805,342	14,756,585
-	16,336,756	16,336,756
4,694,041	20,193,791	113,819,730
(4,620,735)	(14,723,225)	(16,035,053)
4,650,000	-	7,900,000
-	-	26,815
-	15,666,035	18,458,535
-	-	(8,681,215)
4,650,000	15,666,035	17,704,135
29,265	942,810	1,669,082
674,401	2,301,757	23,174,861
\$ 703,666	\$ 3,244,567	\$ 24,843,943

City of Sterling Heights, Michigan

Governmental Funds **Reconciliation of the Statement of Revenues, Expenditures, and Changes** **in Fund Balances of Governmental Funds to the Statement of Activities** **Year Ended June 30, 2007**

Net Change in Fund Balances - Total Governmental Funds	\$ 1,669,082
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	7,727,231
Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection	(118,502)
Special assessment revenues are recorded in the statement of activities when the assessment is earned (i.e., work is substantially complete); they are not reported in the funds until collected or collectible within 60 days of year end. In the current year, more was collected than earned	323,313
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	14,000,000
Bond issuance is not reported as an other financing source on the statement of activities	(7,900,000)
Premiums received on bond issuance are recognized in the year of issuance in the governmental funds, but are amortized over the life of the bonds on the statement of activities	387,816
Accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities. In the current year, more was earned than was paid out	(126,231)
Internal Service Funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue (expense) of the Internal Service Fund is reported with governmental activities	(6,265,326)
Change in Net Assets of Governmental Activities	<u>\$ 9,697,383</u>

City of Sterling Heights, Michigan

Proprietary Funds Statement of Net Assets June 30, 2007

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ -	\$ 2,337,786
Investments - At fair value (Note 3)	23,509,619	15,154,025
Receivables:		
Customers	6,777,647	-
Accrued interest	262,343	118,465
Prepaid costs and other assets	-	1,298,277
Due from other governments	254	-
Due from other funds (Note 5)	2,597,081	302,667
Inventories	382,377	-
Total current assets	33,529,321	19,211,220
Noncurrent assets:		
Special assessments	2,365	-
Restricted assets (Note 8)	7,418,300	-
Capital assets - Net (Note 4)	137,413,059	-
Total noncurrent assets	144,833,724	-
Total assets	178,363,045	19,211,220
Liabilities		
Current liabilities:		
Accounts payable	3,900,554	80,624
Accrued and other liabilities	159,174	-
Provision for uninsured losses and liabilities (Note 10)	-	841,867
Unearned revenue	99,190	-
Total current liabilities	4,158,918	922,491
Noncurrent liabilities:		
Provision for uninsured losses and liabilities (Note 10)	-	2,090,089
Long-term debt (Note 7):		
Due within one year	62,975	-
Due in more than one year	146,783	-
Total noncurrent liabilities	209,758	2,090,089
Total liabilities	4,368,676	3,012,580
Net Assets		
Investment in capital assets	137,413,059	-
Restricted for ordinance requirements	7,418,300	-
Unrestricted	29,163,010	16,198,640
Total net assets	\$ 173,994,369	\$ 16,198,640

City of Sterling Heights, Michigan

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Operating Revenues		
Water sales	\$ 10,133,651	\$ -
Sewage treatment	12,957,977	-
Service charges	1,163,057	-
City contributions	-	9,197,213
Other	1,150,070	150,730
Total operating revenues	25,404,755	9,347,943
Operating Expenses		
Wages and fringe benefits	3,130,296	-
Contractual services	139,278	-
Water purchases	8,971,599	-
Sewage disposal charges	10,465,317	-
Materials and supplies	291,902	-
Repairs and maintenance	511,905	-
Building and equipment rental	133,870	-
Insurance	327,270	-
Depreciation	4,597,436	-
Administration expenses	1,593,030	313,590
Reinsurance charges and claims	-	5,686,884
Other	128,483	708,065
Total operating expenses	30,290,386	6,708,539
Operating (Loss) Income	(4,885,631)	2,639,404
Nonoperating Revenues		
Interest income	1,812,012	872,590
Tap fees and frontage charges	1,158,489	-
Total nonoperating revenues	2,970,501	872,590
(Loss) Income - Before contributions and operating transfers	(1,915,130)	3,511,994
Contributions from Developers	1,503,828	-
Transfer Out	-	(9,777,320)
Change in Net Assets	(411,302)	(6,265,326)
Net Assets - Beginning of year	174,405,671	22,463,966
Net Assets - End of year	<u>\$ 173,994,369</u>	<u>\$ 16,198,640</u>

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Cash Flows from Operating Activities		
Receipts from customers	\$ 23,240,808	\$ 17,319,693
Payments to suppliers for goods and services	(19,555,690)	-
Payments to employees for services	(3,130,297)	-
Payments connected with interfund services	(1,920,300)	-
Receipts connected with interfund services	(2,663,227)	-
Claims paid	-	(7,687,896)
Other receipts	299,388	150,730
Net cash (used in) provided by operating activities	(3,729,318)	9,782,527
Cash Flows from Noncapital Financing Activities - Transfer to governmental funds	-	(9,777,320)
Cash Flows from Capital and Related Financing Activities		
Collection of customer assessments (principal and interest)	1,158,489	-
Purchase of capital assets	(1,417,772)	-
Net cash used in capital and related financing activities	(259,283)	-
Cash Flows from Investing Activities		
Interest received on investments	1,812,012	872,590
Purchase of investment securities	(47,634,268)	(38,411,300)
Proceeds from sales and maturities of investment securities	52,429,318	28,325,000
Net cash provided by (used in) investing activities	6,607,062	(9,213,710)
Net Increase (Decrease) in Cash and Cash Equivalents	2,618,461	(9,208,503)
Cash and Cash Equivalents - Beginning of year	2,531,058	11,546,289
Cash and Cash Equivalents - End of year	<u>\$ 5,149,519</u>	<u>\$ 2,337,786</u>
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ -	\$ 2,337,786
Restricted cash and cash equivalents (Note 8)	5,149,519	-
Total	<u>\$ 5,149,519</u>	<u>\$ 2,337,786</u>

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2007

	Business-type Activities	Governmental Activity
		Internal Service
	Enterprise Fund - Water and Sewer	Fund - Self- insurance
Reconciliation of operating (loss) income to net cash from operating activities:		
Operating (loss) income	\$ (4,885,631)	\$ 2,639,404
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation and amortization	4,597,436	-
Changes in assets and liabilities:		
Receivables	(1,013,878)	8,438,985
Prepaid costs and other assets	-	(461,902)
Due from other funds	(2,597,335)	145,397
Inventory	19,011	-
Accounts payable	342,812	(70,102)
Accrued and other liabilities	(49,417)	-
Provision for uninsured losses and liabilities	-	(909,255)
Deferred revenue	(76,424)	-
Due to other funds	(65,892)	-
Net cash provided by operating activities	<u>\$ (3,729,318)</u>	<u>\$ 9,782,527</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2007, developers constructed water and sewer lines with an estimated value of \$1,503,828 and donated them to the City's Water and Sewer Enterprise Fund.

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2007

	Trust Funds - Pensions and Other Retirement Benefits	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 11,532,600	\$ 566,032
Investments - At fair value (Note 3):		
Government securities	27,234,413	2,734,175
Short-term investment fund	-	1,330,000
Corporate bonds	90,449,113	-
Common and preferred stocks	218,540,411	-
Pooled investments	10,002,259	-
Cash and investments held as collateral for securities lending	36,325,038	-
Receivables - Accrued interest	1,057,543	47,495
Other assets	-	-
	<hr/>	<hr/>
Total assets	395,141,377	<u><u>\$ 4,677,702</u></u>
Liabilities		
Accounts payable	1,455,012	\$ -
Accrued and other liabilities	4,800,613	1,495,851
Amounts due to broker under securities lending agreements	36,325,038	-
Due to other governmental units	296,960	147,906
Provision for uninsured losses and liabilities (Note 10)	530,412	-
Deferred revenue	3,051	-
Cash bonds and deposits	-	3,033,945
	<hr/>	<hr/>
Total liabilities	43,411,086	<u><u>\$ 4,677,702</u></u>
Net Assets - Held in trust for pensions and other retirement benefits	<u><u>\$ 351,730,291</u></u>	

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2007

	Trust Funds - Pensions and Other Retirement Benefits
<hr/>	
Additions	
Investment income:	
Interest and dividends	\$ 9,870,375
Net adjustment to fair value of investments	31,180,410
Less investment expenses	<u>(1,219,359)</u>
Net investment income	39,831,426
Securities lending income:	
Interest and fees	2,170,909
Less borrower rebates and bank fees	<u>(2,120,091)</u>
Net securities lending income	50,818
Contributions:	
Employer	9,674,869
Employee	2,037,392
Purchase of prior year's service credits	1,166,814
Insurance recovery	<u>103,310</u>
Total additions	52,864,629
Deductions	
Benefit payments	19,408,820
Refunds of contributions	<u>1,481,527</u>
Total deductions	<u>20,890,347</u>
Change in Net Assets	31,974,282
Net Assets - Beginning of year	<u>319,756,009</u>
Net Assets - End of year	<u><u>\$ 351,730,291</u></u>

City of Sterling Heights, Michigan

Component Units Statement of Net Assets June 30, 2007

	Economic Development Corporation	Brownfield Redevelopment Authority	Total
Assets - Cash and cash equivalents	\$ 5,305	\$ 3,734	\$ 9,039
Liabilities - Accounts payable	506	94	600
Net Assets - Unrestricted	<u>\$ 4,799</u>	<u>\$ 3,640</u>	<u>\$ 8,439</u>

City of Sterling Heights, Michigan

Component Units Statement of Activities Year Ended June 30, 2007

		Program Revenues	Net (Expenses) Revenues and Changes in Net Assets		
		Operating Grants and Contributions	Economic Development Corporation	Brownfield Redevelopment Authority	Total
	Expenses				
Economic Development Corporation -					
Public Works	\$ 9,883	\$ 8,000	\$ (1,883)	\$ -	\$ (1,883)
Brownfield Redevelopment Authority -					
Public Works	44,942	32,232	-	(12,710)	(12,710)
Total component units	<u>\$ 54,825</u>	<u>\$ 40,232</u>	(1,883)	(12,710)	(14,593)
General Revenues - Interest			373	646	1,019
Change in Net Assets			(1,510)	(12,064)	(13,574)
Net Assets - Beginning of year			6,309	15,704	22,013
Net Assets - End of year			<u>\$ 4,799</u>	<u>\$ 3,640</u>	<u>\$ 8,439</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Sterling Heights, Michigan (the "City") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

Discretely Presented Component Units - The following nonmajor component units are reported within the component units column in the government-wide financial statements to emphasize that they are legally separate from the City. Financial statements for each of the individual component units are available at the City's office.

- a. The Economic Development Corporation (the "Corporation") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services to and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of five individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the Corporation. The Corporation is presented as a governmental fund type.
- b. The Brownfield Redevelopment Authority (the "Authority") was created to encourage and provide assistance in environmentally distressed areas in the City. The Authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the Authority. The Authority is presented as a governmental fund type.
- c. The Corridor Improvement Authority (the "CI Authority") was created to encourage revitalization and redevelopment of commercial properties which have been developed along the City's major arterial roadways. The CI Authority's governing body, which consists of seven individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the CI Authority. The CI Authority had no financial activity in the current year and therefore has not been presented in these financial statements as a governmental fund type.

The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not allocable to program revenues are reported instead as general revenues.

Separate financial statements are provided within the report for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major Enterprise Fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and the trust fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Roads Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.
- The Community Development Block Grant Fund accounts for federal grant funds received from the U.S. Department of Housing & Urban Development for purposes of developing a viable urban community by providing economic opportunities principally for persons of low and moderate income.
- The General Improvements Fund (a Capital Projects Fund type) accounts for the proceeds of bond issues and all other resources used for the purpose of constructing all major capital improvement projects of the City other than special assessment, road, and enterprise projects.
- The Road Bond Construction Fund (a Capital Projects Fund type) accounts for the proceeds of bond issues and all other resources used for the purpose of construction activity for roads and storm drains.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City reports the following major proprietary fund:

- The Water and Sewer Fund accounts for the activity of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

- The Internal Service Fund accounts for risk management services provided to other departments of the government on a cost reimbursement basis.
- The Pension Trust Funds and the Retiree Medical Benefit Fund account for the activities of the general employee and police and fire employees' retirement systems, which accumulate resources for pension benefit payments to qualified general and police and fire employees and for medical benefits provided to employees during retirement, respectively.
- The Tax Collection and General Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, and other governments. Agency Fund activity includes tax collections and the general Agency Fund (District Court activity).

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less when acquired. Investments are stated at fair value. Shared pooled investment income from the General Drain, RS&T, Settlement, Road Bond, and Limited Tax Obligations Debt Service Funds is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Properties are assessed as of December 31 and the related property taxes become a lien and are billed on July 1 of the following year. These taxes are due on September 1 with the final collection date of February 28 before they are added to the county tax rolls.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - The City Charter requires amounts in the Enterprise Fund to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve, when applicable. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for construction, maintenance, or debt service.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Building improvements	25 years
Other improvements	10-30 years
Equipment	5-20 years
Furnishings and fixtures	10-15 years
Infrastructure	20-40 years
Water and sewer mains	50 years

Compensated Absences - The City allows employees to accumulate earned but unused sick and vacation pay benefits. The government-wide and proprietary statements accrue all vacation and personal pay as it is earned, and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or employees terminate).

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, such as provision for uninsured losses, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since July 1, 2001 is as follows:

Shortfall at July 1, 2006		\$ (2,611,523)
Current year building permit revenue	\$ 2,000,929	
Related expenses:		
Direct costs	1,801,171	
Estimated indirect costs	<u>1,301,581</u>	
Total construction code expenses		<u>3,102,752</u>
Net shortfall for the year ended June 30, 2007		<u>(1,101,823)</u>
Cumulative shortfall at June 30, 2007		<u>\$ (3,713,346)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the City Council in accordance with Public Act 20 of 1948, as amended, authorizes investments in U.S. Treasuries, U.S. agencies and instrumentalities (date specific maturities only), non-negotiable certificates of deposits, commercial paper (rated A2/P2 or above), bankers' acceptances, repurchase agreements, overnight deposits, or mutual funds. For overnight deposits, the treasurer may invest overnight or short-term liquid assets to cover cash flow requirements in the following types of pools: investment pools organized under the Surplus Funds Investment Pool Act of 1982, PA 367, I MCL 129.111 to MCL 129.118, or investment pools organized under the Urban Cooperation Act of 1967, PA 7, MCL 124.501 to 124.512. For mutual funds, the treasurer may invest in no-load fixed income mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan, either taxable or tax-exempt. This authorization is limited to mutual funds whose intent is to maintain a net asset value of \$1.00 per share.

The Pension Trust Funds and the Retiree Medical Benefits Fund are also authorized to invest in certain reverse purchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (limited to 5 percent of the trust fund's assets if total assets are less than \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated one bank for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below.

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the City had \$43,094,867 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, none of the City's investments were subject to custodial credit risk due to one of the following:

- Investments were part of an insured pool
- Investments were book-entry only in the name of the City and were fully insured
- Investments were part of a mutual fund
- Investments were held by an agent in the City's name

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy is very specific as it relates to investment maturities, as indicated in the table below.

Instrument	Maturity Maximum
U.S. Treasuries	10 years
U.S. agencies and instrumentalities (date specific maturities only)	10 years
CDs (non-negotiable)	20% to 1 year, 20% to 270 days
Commercial paper (rated A1 or equivalent)	270 days
Banker acceptances	184 days
Repurchase agreements	60 days (collateral 10 years for
Repurchase agreements	treasuries, 7 years for instrumentalities)

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

At year end, the average maturities of investments are as follows:

Investment	Fair Value	Average Maturity
Government-wide		
Commercial paper	\$ 5,426,550	.25 years
U.S. government agencies	29,881,550	3.24 years
General Employees' Retirement System		
Corporate bonds	30,786,478	3.70 years
Foreign bonds	1,115,560	5.83 years
U.S. government agencies	98,170	.13 years
U.S. government obligations	5,304,184	2.88 years
Municipal obligations	2,085,523	3.91 years
Police and Fire Retirement System		
Corporate bonds	55,509,005	4.45 years
Foreign bonds	2,476,073	6.27 years
U.S. government agencies	137,438	7.04 years
U.S. government obligations	13,275,989	5.46 years
Municipal obligations	3,345,281	4.94 years
Retiree Medical Benefits		
Corporate bonds	561,997	3.82 years
U.S. government agencies	2,035,480	6.94 years
U.S. government obligations	952,348	5.51 years

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

Credit Risk - In compliance with state law, the City's investment policy limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Organization
Government-wide			
Pooled funds	\$ 12,724,649	AAA	S&P
Pooled funds	1,008,728	Not Rated	
Commercial paper	2,490,750	PI	Moody
Commercial paper	2,935,800	A2	S&P
U.S. government agencies	29,881,550	AAA	S&P
General Employees' Retirement System			
U.S. government agencies	98,170	A+	S&P
Municipal obligations	2,085,523	AAA	S&P, Fitch
Corporate bonds	20,847,958	AAA	S&P, Fitch, Moody
Corporate bonds	1,010,144	AA to AA-	S&P, Moody
Corporate bonds	1,934,163	A to A-	S&P, Moody
Corporate bonds	6,417,120	BBB to BBB-	S&P, Fitch
Corporate bonds	552,349	BB+	S&P
Corporate bonds	24,744	B+	S&P
Foreign bonds	1,115,560	BBB to BBB-	S&P
Pooled funds - Securities lending	8,430,749	Not Rated	
Police and Fire Retirement System			
U.S. government agencies	137,438	A+	S&P
Municipal obligations	2,944,162	AAA	S&P, Moody
Municipal obligations	401,119	AAA	S&P
Corporate bonds	43,923,548	AAA	S&P, Fitch
Corporate bonds	2,913,980	A to A-	S&P, Moody
Corporate bonds	7,859,271	BBB to BBB-	S&P, Fitch
Corporate bonds	812,206	BB to BB-	S&P
Foreign bonds	554,923	A	S&P
Foreign bonds	1,921,150	BBB to BBB-	S&P
Pooled funds - Securities lending	27,894,289	Not Rated	
Retiree Medical Benefits			
Pooled funds	128,182	AAA	S&P
U.S. government agencies	2,035,480	AAA	S&P
Corporate bonds	40,271	AAA	S&P
Corporate bonds	182,724	AA+ to AA-	S&P
Corporate bonds	216,032	A1+ to A-	S&P
Corporate bonds	122,970	BBB+ to BBB-	S&P

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk

Through its investment policy, the City places a 5 percent limit on the amount the City may invest in any one issuer.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system restricts the amount of investments in foreign currency denominated investments to 5 percent of total pension system investments.

Both pension systems include exposure to the international asset class in order to increase diversification and reduce risk. The investments held by the General Employees and Police & Fire Pension International managers are protected from foreign currency risk through the use of ADRs (American Depositary Receipts).

Retirement Investments

Securities Lending Transactions - The General Employees' Retirement System and the Police and Fire Retirement System (collectively referred to as the "Systems") have entered into securities lending transactions whereby loans of securities are made to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. State statutes permit participation in securities lending transactions and the Systems have authorized the custodians of their securities to lend securities to broker-dealers and banks pursuant to a formal loan agreement. At June 30, 2007, the Systems have no credit risk exposure to the borrowers because the amounts the Systems owe the borrowers exceed the amount the borrowers owe the Systems.

During the year, security loans were made at the discretion of the Systems' custodial bank and United States currency was received as collateral. Borrowers were required to deliver collateral for each loan equal to but not less than 100 percent of the market value of the loaned securities. The Systems did not impose any restrictions during the past year on the amount of loans that the lending agents could make on their behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon. In addition, there were no losses during the past year resulting from default of the borrowers. Contracts with the lending agents require them to indemnify the Systems if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Systems for income distributions by the securities' issuers while the securities are on loan.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

All securities loans can be terminated on demand by either the Systems or the borrower. The cash collateral received on each loan was invested, together with the cash collateral of the other lenders, in a pool. The average duration of such investment pools as of June 30, 2007 was 133 days. Their duration did not generally match the duration of the loans because the loans could be terminated on demand. The total amount of collateral held and the fair values of the underlying securities for the Systems as of June 30, 2007 were \$36,325,038 and \$35,226,223, respectively.

Note 4 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 44,342,595	\$ 926,015	\$ -	\$ 45,268,610
Construction in progress	3,029,743	4,360,184	(2,235,745)	5,154,182
Works of art	306,751	-	-	306,751
Net capital assets - Nondepreciable	47,679,089	5,286,199	(2,235,745)	50,729,543
Capital assets being depreciated:				
Building and building improvements	31,569,549	91,150	-	31,660,699
Improvements other than buildings	5,902,064	80,743	-	5,982,807
Equipment	32,420,003	3,898,134	(845,719)	35,472,418
Furnishings and fixtures	1,376,346	18,043	(10,621)	1,383,768
Infrastructure	213,728,150	11,143,386	-	224,871,536
Subtotal	284,996,112	15,231,456	(856,340)	299,371,228
Accumulated depreciation:				
Building and building improvements	9,335,837	686,606	-	10,022,443
Improvements other than buildings	1,138,138	195,857	-	1,333,995
Equipment	19,830,986	2,476,350	(1,455,936)	20,851,400
Furnishings and fixtures	1,034,211	57,098	(9,906)	1,081,403
Infrastructure	96,838,814	7,748,270	-	104,587,084
Subtotal	128,177,986	11,164,181	(1,465,842)	137,876,325
Net capital assets being depreciated	156,818,126	4,067,275	609,502	161,494,903
Net governmental capital assets	\$ 204,497,215	\$ 9,353,474	\$ (1,626,243)	\$ 212,224,446

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Capital Assets (Continued)

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 64,871	\$ -	\$ -	\$ 64,871
Construction in progress	1,651,883	2,224,187	(1,651,883)	2,224,187
Net capital assets - Nondepreciable	1,716,754	2,224,187	(1,651,883)	2,289,058
Capital assets being depreciated:				
Building and building improvements	408,372	14,261	-	422,633
Improvements other than buildings	11,391	-	-	11,391
Equipment	2,532,153	285,559	(175,451)	2,642,261
Furnishings and fixtures	27,030	-	-	27,030
Water and sewer mains	217,079,786	2,051,212	-	219,130,998
Subtotal	220,058,732	2,351,032	(175,451)	222,234,313
Accumulated depreciation:				
Building and building improvements	187,286	8,159	-	195,445
Improvements other than buildings	11,391	-	-	11,391
Equipment	1,418,801	227,345	(173,715)	1,472,431
Furnishings and fixtures	15,748	1,802	-	17,550
Water and sewer mains	81,053,365	4,360,130	-	85,413,495
Subtotal	82,686,591	4,597,436	(173,715)	87,110,312
Net capital assets being depreciated	137,372,141	(2,246,404)	(1,736)	135,124,001
Net business-type capital assets	\$ 139,088,895	\$ (22,217)	\$ (1,653,619)	\$ 137,413,059

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 483,625
Public safety	1,530,113
Public works	8,297,040
Recreation and culture	798,109
41A District Court	55,294
Total governmental activities	\$ 11,164,181
Business-type activities - Water and Sewer	\$ 4,597,436

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances in the fund-level financial statements is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Major Roads Fund	\$ 140,110
	Nonmajor governmental funds	162,140
	Community Development	
	Block Grant Fund	8,167
	General Improvements Fund	<u>8,672</u>
	Total General Fund	319,089
Nonmajor governmental funds	General Fund	144
Water and Sewer Fund	General Fund	2,597,081
Self-insurance Fund	General Fund	<u>302,667</u>
	Total	<u>\$ 3,218,981</u>

Interfund balances represent routine and temporary cash flow assistance from the General Fund until amounts are transferred from fund investment accounts.

Interfund Transfers Reported in the Fund Statements

Fund Transferred From	Fund Transferred To	Amount
General Fund	Major Roads Fund	\$ 1,100,000
	General Improvements Fund	1,600,720
	Nonmajor governmental funds	<u>1,341,900</u>
	Total	4,042,620
Major Roads Fund	Nonmajor governmental funds	3,200,000
General Improvement Fund	Nonmajor governmental funds	1,346,815
Community Development		
Block Grant Fund	General Fund	91,780
Proprietary Funds -		
Governmental activity	Nonmajor governmental funds	<u>9,777,320</u>
	Total	<u>\$ 18,458,535</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

The transfer from the General Fund to the Major Roads Fund represents the transfer of unrestricted resources for current and future road projects; the transfer from the General Fund to the General Improvements Fund represents unrestricted resources for current and future capital projects; and the transfers from the General Fund to the nonmajor governmental funds represents unrestricted resources for current local road repair and replacement programs and debt service payments. Transfers from the Major Roads Fund to the nonmajor governmental funds represent funding of current debt service and local road maintenance. Transfers from the General Improvements Fund represents funding for debt service payments. Transfers from the Community Development Block Grant Fund to the General Fund represent funding of current grant-related expenditures. Transfers from the Proprietary Fund to the nonmajor governmental funds represents the prefunding of future debt service.

Note 6 - Deferred Revenue

Governmental funds report unearned revenue in connection with receivables and deposits for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

	Unavailable	Unearned
Due from Macomb County (Note 8)	\$ 1,942,527	\$ -
Loans receivable - Rehabilitation	-	1,739,615
Special assessments	384,247	-
Other deposits	79,764	448,145
Total	<u>\$ 2,406,538</u>	<u>\$ 2,187,760</u>

Note 7 - Long-term Debt

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities					
General Obligation Bonds:					
1997 Unlimited Tax Road Bonds:					
Amount of Issue - \$1,850,000					
Maturing through 2007					
Interest Rate Ranges 4.70% - 5.10%					
Principal Maturity Range \$175,000 - \$225,000	\$ 450,000	\$ -	\$ (225,000)	\$ 225,000	\$ 225,000
1998 Unlimited Tax Road Bonds:					
Amount of Issue - \$2,775,000					
Maturing through 2007					
Interest Rate Ranges 3.75% - 5.75%					
Principal Maturity Range \$250,000 - \$375,000	725,000	-	(350,000)	375,000	375,000
1999 Unlimited Tax Road Bonds:					
Amount of Issue - \$2,700,000					
Maturing through 2008					
Interest Rate Ranges 3.56% - 4.10%					
Principal Maturity Range \$250,000 - \$350,000	1,025,000	-	(325,000)	700,000	350,000
1999 Michigan Transportation Fund Bonds:					
Amount of Issue - \$5,250,000					
Maturing through 2013					
Interest Rate Ranges 4.10% - 4.65%					
Principal Maturity Range \$200,000 - \$600,000	3,600,000	-	(300,000)	3,300,000	300,000
2000 Building Authority Bonds City Center Commons					
Amount of Issue - \$3,700,000					
Maturing through 2019					
Interest Rate Ranges 5.00% - 7.00%					
Principal Maturity Range \$75,000 - \$300,000	475,000	-	(150,000)	325,000	150,000
2000 Michigan Transportation Fund Bonds:					
Amount of Issue - \$4,225,000					
Maturing through 2014					
Interest Rate 5.00%					
Principal Maturity Range \$100,000 - \$500,000	400,000	-	(200,000)	200,000	200,000
2002 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$4,840,000					
Maturing through 2009					
Interest Rate Ranges 2.70% - 4.00%					
Principal Maturity Range \$100,000 - \$890,000	2,500,000	-	(680,000)	1,820,000	740,000
2003 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$3,050,000					
Maturing through 2013					
Interest Rate Ranges 2.375% - 3.60%					
Principal Maturity Range \$120,000 - \$500,000	2,740,000	-	(415,000)	2,325,000	400,000
2003 Building Authority Refunding Bonds:					
Amount of Issue - \$2,025,000					
Maturing through 2010					
Interest Rate Ranges 2.00% - 2.75%					
Principal Maturity Range \$300,000 - \$395,000	1,410,000	-	(310,000)	1,100,000	325,000

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
General Obligation Bonds (Continued):					
2004 Judgment Bonds:					
Amount of Issue - \$24,395,000					
Maturing through 2015					
Interest Rate Ranges 2.00% - 5.375%					
Principal Maturity Range \$840,000 - \$3,030,000	\$ 22,825,000	\$ -	\$ (9,980,000)	\$ 12,845,000	\$ 930,000
2005 Michigan Transportation Refunding Bonds:					
Amount of Issue - \$3,285,000					
Maturing through 2014					
Interest Rate Ranges 3.00% - 4.125%					
Principal Maturity Range \$35,000 - \$500,000	3,250,000	-	(35,000)	3,215,000	35,000
2005 Limited Tax Refunding Bonds:					
Amount of Issue - \$2,820,000					
Maturing through 2019					
Interest Rate Ranges 3.00% - 5.00%					
Principal Maturity Range \$25,000 - \$305,000	2,795,000	-	(25,000)	2,770,000	25,000
2005 Michigan Transportation Fund Bonds:					
Amount of Issue - \$5,300,000					
Maturing through 2019					
Interest Rate Ranges 3.00% - 4.25%					
Principal Maturity Range \$100,000 - \$625,000	5,200,000	-	(100,000)	5,100,000	125,000
2007 Michigan Transportation Fund Bonds:					
Amount of Issue - \$4,650,000					
Maturing through 2021					
Interest Rate Ranges 3.70% - 4.00%					
Principal Maturity Range \$100,000 - \$500,000	-	4,650,000	-	4,650,000	100,000
2007 Limited Tax Capital Improvement Bonds					
Amount of Issue - \$3,250,000					
Maturing through 2012					
Interest Rate - 4.00%					
Principal Maturity Range \$325,000 - \$600,000	-	3,250,000	-	3,250,000	575,000
County Drain Contract Obligations:					
Green Drain Enclosure:					
Amount of Issue - \$1,065,000					
Maturing through 2007					
Interest Rate Ranges 5.40% - 5.70%					
Principal Maturity Range \$75,000 - \$100,000	100,000	-	(100,000)	-	-
Busch Drain Drainage District:					
Amount of Issue - \$1,250,000					
Maturing through 2014					
Interest Rate Ranges 4.00% - 4.55%					
Principal Maturity Range \$50,000 - \$125,000	825,000	-	(75,000)	750,000	100,000
Hawken Drain Drainage District:					
Amount of Issue - \$795,000					
Maturing through 2015					
Interest Rate Ranges 4.45% - 5.25%					
Principal Maturity Range \$50,000 - \$75,000	500,000	-	(50,000)	450,000	50,000

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
County Drain Contract Obligations (Continued):					
Hayes Drain Drainage District:					
Amount of Issue - \$1,095,000					
Maturing through 2015					
Interest Rate Ranges 4.50% - 5.50%					
Principal Maturity Range \$25,000 - \$125,000	\$ 875,000	\$ -	\$ (75,000)	\$ 800,000	\$ 75,000
Plumbrook Bridge Replacement Drain Drainage District:					
Amount of Issue - \$2,800,000					
Maturing through 2015					
Interest Rate Ranges 4.00% - 5.00%					
Principal Maturity Range \$100,000 - \$275,000	2,050,000	-	(175,000)	1,875,000	175,000
17 Mile Extension Drain Drainage District:					
Amount of Issue - \$1,725,000					
Maturing through 2016					
Interest Rate Ranges 3.00% - 4.50%					
Principal Maturity Range \$75,000 - \$150,000	1,325,000	-	(100,000)	1,225,000	100,000
Sterling Relief Lateral 12B Drainage District:					
Amount of Issue - \$885,000					
Maturing through 2013					
Interest Rate Ranges 2.00% - 4.00%					
Principal Maturity Range \$75,000 - \$105,000	670,000	-	(80,000)	590,000	85,000
17 Mile Road Drain and Branches Refunding Bonds					
Amount of Issue - \$2,315,000					
Maturing through 2013					
Interest Rate Ranges 2.00% - 3.75%					
Principal Maturity Range \$200,000 - \$290,000	1,885,000	-	(250,000)	1,635,000	245,000
Total bond obligations	55,625,000	7,900,000	(14,000,000)	49,525,000	5,685,000
Other long-term obligations:					
Provision for uninsured losses and other liabilities	3,841,211	5,050,514	(5,959,769)	2,931,956	841,867
Compensated absences - General Fund	4,568,092	1,352,222	(1,225,991)	4,694,323	538,672
Total other long-term obligations	8,409,303	6,402,736	(7,185,760)	7,626,279	1,380,539
Total governmental activities	64,034,303	14,302,736	(21,185,760)	57,151,279	7,065,539
Business-type Activities - Water and Sewer					
Fund obligations - Compensated absences	232,642	24,320	(47,204)	209,758	62,975
Total	\$ 64,266,945	\$ 14,327,056	\$ (21,232,964)	\$ 57,361,037	\$ 7,128,514

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2008	\$ 5,685,000	\$ 1,963,556	\$ 7,648,556
2009	5,630,000	1,763,436	7,393,436
2010	5,310,000	1,569,707	6,879,707
2011	5,005,000	1,370,039	6,375,039
2012	5,100,000	1,157,551	6,257,551
2013-2017	17,750,000	2,725,680	20,475,680
2018-2022	5,045,000	463,388	5,508,388
Total	<u>\$ 49,525,000</u>	<u>\$ 11,013,357</u>	<u>\$ 60,538,357</u>

On August 1, 2006, restricted insurance proceeds were deposited into an escrow account with JP Morgan, the paying agent for the 2004 Judgment Funding Bonds, and U.S. government securities were purchased to cover the \$9,150,000 principal and the related interest for a portion of the 2015 and all of the 2016-2018 bonds. Those securities were deposited into separate irrevocable trusts with an escrow agent to provide for future debt service payments.

During the year, the City issued \$4,650,000 in new Michigan Transportation Fund Bonds. The bonds mature from 2007 through 2021 and carry coupons ranging from 3.70 percent to 4.00 percent. The true interest cost of the issue was 3.97 percent. Bond proceeds totaling \$81,094 were used to pay underwriter fees and other issuance costs. The net proceeds of the bond issue were used to reimburse costs associated with three major road projects completed during fiscal year 2007. The City also issued \$3,250,000 in new Limited Tax General Obligation Bonds. The bonds mature from 2007 through 2012 and carry coupons at 4.00 percent. The true interest cost of the issue was 3.68 percent. Bond proceeds totaling \$53,627 were used to pay underwriter fees and other issuance costs. The net proceeds of the bond issue were used to partially finance the construction of a major addition to the Senior Activity Life Center and equipment purchased related to the 800 MHz emergency radio system during fiscal year 2007.

Additionally, in prior years the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the bonds. Accordingly, trust account assets and related liability for defeased bonds are not included in the general purpose financial statements.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

At June 30, 2007, the City's portion of bonds outstanding considered defeased totals \$5,725,000.

Note 8 - Restricted Assets

Specific assets of the Water and Sewer Fund have been restricted by ordinance which requires the City to set aside a sum sufficient to provide for the subsequent quarter's expenses for operations, maintenance, and replacement. Specific assets of the General Improvements Fund are restricted as the result of an external government issuing bonds for which state law requires the proceeds of the issue to be used exclusively for the purpose the bonds were issued or the repayment of the bonds. Following is the detail of restricted assets at June 30, 2007:

Water and Sewer Fund:	
Cash and cash equivalents	\$ 5,149,519
Investments	<u>2,268,781</u>
Total Water and Sewer Fund	7,418,300
General Improvements Fund - Due from Macomb County* (Note 6)	<u>1,942,527</u>
Total restricted assets	<u><u>\$ 9,360,827</u></u>

* This amount is held by Macomb County in the Construction and Debt Retirement Funds maintained on behalf of the City by the Macomb County Department of Public Works for drain construction projects of the City.

There are no current liabilities payable from restricted assets and net assets have been reserved.

Note 9 - Loans Receivable

The City utilizes Community Development Block Grant funds to provide housing rehabilitation loans to eligible applicants. Such loans are made to low- and moderate-income persons to improve or rehabilitate residences. The City accounts for this program in the Special Revenue Community Development Block Grant Fund. Loans receivable of \$1,739,615 at June 30, 2007 have been reflected in the accompanying fund financial statements as rehabilitation loans receivable with an offsetting deferred revenue for the recording of related grant funding.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 10 - Risk Management

The City is exposed to various risks of loss related to property loss, errors and omissions, and employee injuries (workers' compensation and short-term disability), as well as medical benefits provided to employees. The City is self-funded for all of these claims up to a retention amount, at which time the City's reinsurance coverage begins. Settled claims did not exceed the amount of reinsurance coverage for any of the last three years.

Property Liability

The City purchased reinsurance through Arthur J. Gallagher and Company, an international insurance brokerage firm.

It is estimated, based on past experience, that \$1,486,462 will be paid for all claims reported to date and \$581,798 will be paid for claims incurred but not reported. The estimated liability for reported and incurred but not reported claims has been recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2007	2006
Estimated liability - Beginning of year	\$ 2,489,791	\$ 2,400,823
Estimated claims incurred, including changes in estimates	(252,856)	253,987
Claim payments	(168,675)	(165,019)
Estimated liability - End of year	<u>\$ 2,068,260</u>	<u>\$ 2,489,791</u>

Medical Claims and Short-term Disability

As of April 1, 1989, the City became self-insured for Blue Cross/Blue Shield equivalent healthcare coverage. Under the program, the City is liable for claims up to a retention amount of \$200,000 per active and retired employee (including dependents) for the contract year ended June 30, 2007. At January 1, 1990, the City became self-insured for short-term disability.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 10 - Risk Management (Continued)

It is estimated, based on past experience, that \$70,553 will be paid for all claims reported to date and \$1,175,224 will be paid for claims incurred but not reported. This amount and all other transactions with respect to active employee medical and short-term disability claims are reflected in the Self-insurance Internal Service Fund. Retired employee medical claims are reflected in the Retiree Medical Benefits Fiduciary Fund. Changes in the estimated liability for the past two fiscal years are as follows:

	Self-insurance Internal Service Fund	
	2007	2006
Estimated liability - Beginning of year	\$ 1,124,472	\$ 1,348,880
Estimated claims incurred, including changes in estimates	4,898,507	4,827,091
Claim payments	(5,307,614)	(5,051,499)
Estimated liability - End of year	<u>\$ 715,365</u>	<u>\$ 1,124,472</u>

	Retiree Medical Benefits Fund	
	2007	2006
Estimated liability - Beginning of year	\$ 774,285	\$ 924,646
Estimated claims incurred, including changes in estimates	3,999,425	3,566,210
Claim payments	(4,243,298)	(3,716,571)
Estimated liability - End of year	<u>\$ 530,412</u>	<u>\$ 774,285</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 10 - Risk Management (Continued)

Workers' Compensation

On July 1, 1992, the City became self-insured for workers' compensation claims. Under the program, the City is liable for the first \$150,000 of any occurrence. The City has purchased excess insurance to cover claims greater than \$150,000. At June 30, 2007, it was estimated, based on past experience, that \$148,331 will be paid in total for both claims reported to date and claims incurred but not reported. This estimated liability for claims reported to date has been recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2007	2006
Estimated liability - Beginning of year	\$ 226,948	\$ 231,371
Estimated claims incurred, including changes in estimates	152,007	215,361
Claim payments	(230,624)	(219,784)
Estimated liability - End of year	<u>\$ 148,331</u>	<u>\$ 226,948</u>

Note 11 - Defined Benefit Pension Plans

Plan Description - The City participates in two retirement plans, the General Employees' Retirement System and the Police and Fire Retirement System. The General Employees' Retirement System and the Police and Fire Retirement Boards are the administrators of single-employer defined benefit public employee retirement systems that cover substantially all general employees and police and fire employees, respectively. The plans do not issue separate financial statements.

General Employees' Retirement System - This system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, membership consisted of 221 retirees, beneficiaries, alternative payees currently receiving benefits, 13 terminated employees entitled to benefits but not yet receiving them, and 266 current active employees.

Police and Fire Retirement System - This system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, membership consisted of 241 retirees, beneficiaries, alternate payees currently receiving benefits, no terminated employees entitled to benefits but not yet receiving them, and 271 current active employees.

Note 11 - Defined Benefit Pension Plans (Continued)

Funding Policy

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Please refer to Note 1 for further significant accounting policies.

General Employees' Retirement System - The obligation to contribute to and maintain this system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from substantially all employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through the General Fund.

Police and Fire Retirement System - The obligation to contribute to and maintain this system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from substantially all employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Costs

General Employees' Retirement System - For the fiscal year ended June 30, 2007, the City had no required pension contributions (exclusive of administrative costs of approximately \$672,500). The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return and (b) projected salary increases of 5.0 percent to 13.5 percent per year. Both (a) and (b) include an inflation component of 4.5 percent and were determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 16 years.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 11 - Defined Benefit Pension Plans (Continued)

Police and Fire Retirement System - For the fiscal year ended June 30, 2007, the City's annual pension cost of \$2,646,459 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Significant actuarial assumptions used include: (a) an 8.0 percent investment rate of return and (b) projected salary increases of 1.0 percent to 17.0 percent per year. Both (a) and (b) include an inflation component of 4 percent and were determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 20 years.

	Year Ended		
	2005	2006	2007
General Employees' Retirement System:			
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 4,204,831	\$ 2,993,592	\$ 2,646,459
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 11 - Defined Benefit Pension Plans (Continued)

Statement of Net Assets

	General Employees' Retirement System	Police and Fire Retirement System
Assets		
Cash and cash equivalents	\$ 5,202,977	\$ 6,201,441
Investments - At fair value:		
U.S. government securities	7,487,877	16,758,708
Corporate bonds	31,902,038	57,985,078
Common and preferred stocks	86,183,466	121,508,776
Pooled investments	-	10,002,259
Cash and investments held as collateral for securities lending	8,430,749	27,894,289
Receivables - Accrued interest	370,613	686,930
Total assets	139,577,720	241,037,481
Liabilities		
Accounts payable	357,073	1,094,940
Accrued and other liabilities	1,343,907	3,447,981
Amounts due to broker under securities lending agreements	8,430,749	27,894,289
Deferred revenue	3,051	-
Total liabilities	10,134,780	32,437,210
Net Assets - Held in trust for pensions	<u>\$ 129,442,940</u>	<u>\$ 208,600,271</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 11 - Defined Benefit Pension Plans (Continued)

Statement of Changes in Net Assets

	General Employees' Retirement System	Police and Fire Retirement System
Additions		
Investment income (loss):		
Interest and dividends	\$ 3,282,943	\$ 6,274,440
Net adjustment to fair value of investments	13,139,041	16,583,244
Less investment expenses	-	(1,114,306)
Net investment income	16,421,984	21,743,378
Securities lending income:		
Interest and fees	786,509	1,384,400
Less borrower rebates and bank fees	(768,053)	(1,352,038)
Net securities lending income	18,456	32,362
Contributions:		
Employer	-	2,646,459
Employee	788,674	1,248,718
Purchase of prior year's service credits	1,166,814	-
Total additions	18,395,928	25,670,917
Deductions		
Benefit payments	4,085,110	10,912,214
Refunds of contributions	473,842	1,007,685
Total deductions	4,558,952	11,919,899
Change in Net Assets	13,836,976	13,751,018
Net Assets - Beginning of year	115,605,964	194,849,253
Net Assets - End of year	<u>\$ 129,442,940</u>	<u>\$ 208,600,271</u>

Note 12 - Defined Contribution Pension Plan

The City provides pension benefits to new employees who are members of the MAPE Executive Union, non-union 41A District Court employees, UAW TOPS members, UAW supervisors, and MAPE clerical members through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council Resolution, the City contributes 7 percent of employees' base wages, while the employees contribute a minimum of 5 percent of gross wages to employees' individual accounts. The City's contributions to the employees' account including investment earnings are fully vested after five years of service. In accordance with these requirements, the City contributed \$256,710 during the current year and employees contributed \$223,018.

All new employees of the above-mentioned groups participate from the date of employment. Current members of the above unions can elect to withdraw from the defined benefit plan and enter the defined contribution plan. No assets were transferred into the defined contribution plan during the current year since no members elected to withdraw from the defined benefit plan.

Note 13 - Postemployment Benefits

In addition to providing pension benefits, the City provides certain health care benefits, in accordance with labor contracts, for retired general, police, and fire employees. Substantially all of the City's employees mentioned above may become eligible for those benefits if they reach normal retirement age while working for the City. Currently, 197 general and 221 police and fire retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant, except for the M.A.P.E. Executives Union and the U.A.W. Professional and Technical Employees Union, which, effective July 1, 2003, requires new members to pay 25 percent of the monthly retiree health care coverage premium upon retirement; the M.A.P. Police Officers Union and the A.F.S.C.M.E. Court Clerical Union, which, effective July 1, 2006, requires new members to pay 50 percent of the monthly retiree health care coverage premium upon retirement; and the U.A.W. Supervisory Employees Union, which, effective January 1, 2007, requires new members to pay 50 percent of the monthly retiree health care coverage premium upon retirement. The City purchases Medicare supplemental insurance for retirees eligible for Medicare.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 13 - Postemployment Benefits (Continued)

The cost of retiree health care benefits is reflected in the Retiree Medical Benefits Fund, which was established during the 1989 fiscal year when the City began to prefund these benefits. During the current year, the contribution amounted to \$7,028,410, which was funded by the General and Water and Sewer Funds, and health care benefits paid totaled \$4,411,496.

Statement of Net Assets

	Retiree Medical Benefits
Assets	
Cash and cash equivalents	\$ 128,182
Investments - At fair value:	
Government securities	2,987,828
Corporate bonds	561,997
Common and preferred stocks	10,848,169
Total assets	14,526,176
Liabilities	
Accounts payable	2,999
Accrued and other liabilities	8,725
Due to other governmental units	296,960
Provision for uninsured losses and liabilities	530,412
Total liabilities	839,096
Net Assets - Held in trust for other retirement benefits	\$ 13,687,080

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 13 - Postemployment Benefits (Continued)

Statement of Changes in Net Assets

	Retiree Medical Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 312,992
Net adjustment to fair value of investments	1,458,125
Less investment expenses	<u>(105,053)</u>
Net investment income	1,666,064
Contributions - Employer	7,028,410
Insurance recovery	<u>103,310</u>
Total additions	8,797,784
Deductions - Benefit payments	<u>4,411,496</u>
Net Change in Net Assets	4,386,288
Net Assets - Beginning of year	<u>9,300,792</u>
Net Assets - End of year	<u><u>\$ 13,687,080</u></u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 14 - Designated Fund Balance

The following is a summary of the unreserved fund balances of the governmental funds with management's designation:

Designated for	Funds				
	General	Major Roads	General Improvements	Road Bond Construction	Nonmajor
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 118,705
Capital improvement	-	2,709,897	2,142,105	520,119	978,203
Public safety	-	-	-	-	802,645
Retiree medical benefits	<u>2,100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total designated	<u>\$ 2,100,000</u>	<u>\$ 2,709,897</u>	<u>\$ 2,142,105</u>	<u>\$ 520,119</u>	<u>\$ 1,899,553</u>
Undesignated	<u>\$ 12,937,933</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,320,108</u>

The following is a summary of the unrestricted net assets of the proprietary fund with management's designation:

Designated for	Enterprise Fund - Water and Sewer
Capital improvement	<u>\$ 2,540,000</u>
Undesignated	<u>\$ 26,623,010</u>

Required Supplemental Information

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 15,050,244	\$ 15,050,244	\$ 15,050,244	\$ -
Resources (Inflows)				
Property taxes	46,592,670	46,592,670	46,585,168	(7,502)
Refuse taxes	4,210,420	4,210,420	4,205,469	(4,951)
Police and fire pension taxes	2,646,450	2,646,450	2,646,459	9
Federal, state, and local returns	11,835,680	11,713,680	11,776,803	63,123
Licenses and permits	2,291,600	1,974,600	1,784,156	(190,444)
Fines and forfeitures	2,765,850	2,627,800	2,563,520	(64,280)
Charges for services	8,284,600	8,222,880	8,038,601	(184,279)
Cable revenue	1,320,000	1,445,000	1,527,988	82,988
Other revenue	2,946,630	4,105,000	4,223,257	118,257
Transfer from other funds	91,780	91,780	91,780	-
Total resources (inflows)	82,985,680	83,630,280	83,443,201	(187,079)
Charges to Appropriations (Outflows)				
City administration	8,145,710	8,129,900	8,129,513	387
41A District Court	2,861,380	2,851,210	2,847,111	4,099
Parks and recreation department	2,388,540	2,398,660	2,428,267	(29,607)
Community and information services	2,526,740	2,457,120	2,432,645	24,475
Police department	26,617,450	26,626,350	26,658,773	(32,423)
Fire department	14,973,790	14,934,920	14,827,978	106,942
City development	2,878,530	2,859,400	2,865,725	(6,325)
Public works department	7,843,240	7,931,500	8,002,422	(70,922)
Refuse collection	4,253,420	4,106,320	4,089,428	16,892
Public library department	2,694,170	2,763,800	2,752,230	11,570
General expenditures	3,468,360	3,722,660	3,698,838	23,822
Transfers to other funds	4,310,120	4,042,620	4,042,620	-
Total charges to appropriations (outflows)	82,961,450	82,824,460	82,775,550	48,910
Fund Balance - End of year	\$ 15,074,474	\$ 15,856,064	\$ 15,717,895	\$ (138,169)

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Roads Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 1,606,482	\$ 1,606,482	\$ 1,606,482	\$ -
Resources (Inflows)				
State sources	5,513,240	5,345,240	5,344,527	(713)
Other	270,000	284,500	313,623	29,123
Transfers from other funds	1,100,000	1,100,000	1,100,000	-
Total resources (inflows)	6,883,240	6,729,740	6,758,150	28,410
Charges to Appropriations (Outflows)				
Public works:				
Administration	108,700	108,700	109,030	(330)
Routine maintenance	1,739,500	1,640,000	1,617,614	22,386
Improvements	1,046,000	926,170	703,091	223,079
Transfers to other funds	3,200,000	3,200,000	3,200,000	-
Total charges to appropriations (outflows)	6,094,200	5,874,870	5,629,735	245,135
Fund Balance - End of year	\$ 2,395,522	\$ 2,461,352	\$ 2,734,897	\$ 273,545

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Community Development Block Grant Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Federal sources	702,700	1,197,040	1,223,013	25,973
Other	-	-	4,579	4,579
Total resources (inflows)	702,700	1,197,040	1,227,592	30,552
Charges to Appropriations (Outflows)				
Administrative expenses	14,220	14,970	14,645	325
Books	10,000	10,000	10,000	-
Senior Citizens Home Chore and Minor Home Repair	25,000	25,000	25,556	(556)
Single Parent Education Program	25,210	25,210	24,960	250
Housing Rehabilitation Program	82,300	102,300	132,205	(29,905)
Contributions to nonprofit organizations	20,190	20,190	17,756	2,434
Capital improvements	434,000	907,590	910,690	(3,100)
Transfers to other funds	91,780	91,780	91,780	-
Total charges to appropriations (outflows)	702,700	1,197,040	1,227,592	(30,552)
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress June 30, 2007

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c) Underfunded/ (Overfunded)
General Employees' Retirement System						
12/31/01	\$ 97,369,495	\$ 67,431,670	\$ (29,937,825)	144.4	\$ 14,383,348	(208.1%)
12/31/02	97,272,398	73,294,274	(23,978,124)	132.7	14,304,432	(167.6%)
12/31/03	99,270,906	77,021,654	(22,249,252)	128.9	14,544,030	(153.0%)
12/31/04	102,510,129	82,169,717	(20,340,412)	124.8	15,251,784	(133.4%)
12/31/05	107,739,690	89,249,361	(18,490,329)	120.7	15,012,036	(123.2%)
12/31/06	118,967,737	95,810,183	(23,158,554)	124.2	15,382,785	(150.5%)
Police and Fire Retirement System						
12/31/01	\$ 187,772,035	\$ 133,938,061	\$ (53,833,974)	140.2	\$ 18,504,190	(290.9%)
12/31/02	184,609,657	141,187,613	(43,422,044)	130.8	18,595,100	(233.5%)
12/31/03	183,664,050	149,968,630	(33,695,420)	122.5	18,271,862	(184.4%)
12/31/04	187,265,961	155,818,664	(31,447,297)	120.2	19,906,323	(158.0%)
12/31/05	194,145,450	158,517,125	(35,628,325)	122.5	19,787,496	(180.1%)
12/31/06	204,756,058	156,707,512	(48,048,546)	130.7	19,837,496	(242.2%)

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress (Continued) June 30, 2007

General Employees' Retirement System

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution*</u>	<u>Percentage Contributed</u>
06/30/02	12/31/00	\$ -	100.0
06/30/03	12/31/01	-	100.0
06/30/04	12/31/02	-	100.0
06/30/05	12/31/03	-	100.0
06/30/06	12/31/04	-	100.0
06/30/07	12/31/05	-	100.0

Police and Fire Retirement System

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution*</u>	<u>Percentage Contributed</u>
06/30/02	12/31/00	\$ 1,634,437	100.0
06/30/03	12/31/01	2,747,983	100.0
06/30/04	12/31/02	3,545,592	100.0
06/30/05	12/31/03	4,204,831	100.0
06/30/06	12/31/04	2,993,592	100.0
06/30/07	12/31/05	2,646,459	100.0

* The required contribution is expressed to the City as a percentage of payroll.

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress (Continued) June 30, 2007

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2006, the latest actuarial valuation, follows:

General Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	16 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	5.0% - 13.5%
*Includes inflation at	4.5%
Cost of living adjustments	None

Police and Fire Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	20 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	1.0% - 17.0%
*Includes inflation at	4.0%
Cost of living adjustments	None

An additional \$800 will be paid to pre-07/01/94 COA and fire retirees and \$500 for pre-07/01/93 MAP retirees each January 1 following the year of service retirement, or converted service retirement, terminating upon the member's death.

City of Sterling Heights, Michigan

Note to Required Supplemental Information June 30, 2007

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds.

The City adopts its budget by budgetary center for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds, which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to April 1, the City manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- A public hearing is conducted to obtain taxpayer comments.
- Prior to May 10, the budget is legally adopted by the City Council through adoption of the appropriation ordinance.
- The City manager is authorized to transfer budgeted amounts within budgetary centers (activity); however, any revisions that alter the total expenditure of any budgetary center (activity) must be approved by the City Council.

Budgeted amounts of the revenues and expenditures presented for the General, Special Revenue, Debt Service, and Capital Projects Funds are a summarization of the budgeted amounts as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original appropriations that were adopted. Budget appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General and Major Special Revenue Funds is presented as required supplemental information. The budget presented as required supplemental information reflects greater detail than the amended budget adopted.

Encumbrance accounting is employed in all governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

City of Sterling Heights, Michigan

Note to Required Supplemental Information June 30, 2007

Note - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund:		
Parks and recreation department	\$ 2,398,660	\$ 2,428,267
Police department	26,626,350	26,658,773
City development	2,859,400	2,865,725
Public works department	7,931,500	8,002,422
Total General Fund	<u>\$ 39,815,910</u>	<u>\$ 39,955,187</u>
Community Development Block Grant Fund:		
Senior Home Chore & Minor Home Repair program	\$ 25,000	\$ 25,556
Housing Rehabilitation program	102,300	132,205
Capital Improvements program	907,590	910,690
Total Community Development Block Grant Fund	<u>\$ 1,034,890</u>	<u>\$ 1,068,451</u>

The General Fund had unfavorable variances in the following:

- Parks and recreation was the result of higher than anticipated costs for scheduled recreation programs.
- Police was the result of higher than anticipated personnel costs as the result of increased law enforcement activity.
- City development was the result of higher than anticipated personnel costs as the result of an unanticipated retirement.
- Public works was due to higher than anticipated fuel and maintenance costs.

City of Sterling Heights, Michigan

Note to Required Supplemental Information June 30, 2007

Note - Stewardship, Compliance, and Accountability (Continued)

The Community Development Block Grant Fund had unfavorable variances in the following:

- Senior Home Chore & Minor Home Repair program was due to higher than anticipated costs for eligible program expenses.
- Housing Rehabilitation program resulted from higher than anticipated repayment of loans generating additional funds for additional eligible program expenses.
- Capital improvements program was due to higher than anticipated costs for eligible program expenses.

Nonmajor Governmental Funds

City of Sterling Heights, Michigan

	Nonmajor Special Revenue Funds				
	Budget Stabilization	Local Roads	Land and Water Conservation	Public Safety Forfeiture	Total Nonmajor Special Revenue Funds
Assets					
Cash and cash equivalents	\$ 750,000	\$ 303,138	\$ 68,840	\$ 324,928	\$ 1,446,906
Investments	-	500,000	500,000	500,000	1,500,000
Receivables:					
Special assessments:					-
Current	-	38,143	-	-	38,143
Deferred	-	343,286	-	-	343,286
Accrued interest	-	6,601	3,126	-	9,727
Prepaid costs and other assets	-	-	4,070	5,370	9,440
Due from other funds	-	-	144	-	144
Due from other governmental units	-	311,174	-	-	311,174
Total assets	<u>\$ 750,000</u>	<u>\$ 1,502,342</u>	<u>\$ 576,180</u>	<u>\$ 830,298</u>	<u>\$ 3,658,820</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ 1,368	\$ 6,072	\$ 20,092	\$ 27,532
Accrued and other liabilities	-	-	-	-	-
Due to other funds	-	161,359	-	781	162,140
Deferred revenue	-	343,286	-	-	343,286
Total liabilities	-	506,013	6,072	20,873	532,958
Fund Balances					
Reserved for encumbrances	-	18,126	-	6,780	24,906
Unreserved:					
Designated for road improvements	-	978,203	-	-	978,203
Designated for debt service	-	-	-	-	-
Designated for public safety	-	-	-	802,645	802,645
Undesignated	750,000	-	570,108	-	1,320,108
Total fund balance	<u>750,000</u>	<u>996,329</u>	<u>570,108</u>	<u>809,425</u>	<u>3,125,862</u>
Total liabilities and fund balances	<u>\$ 750,000</u>	<u>\$ 1,502,342</u>	<u>\$ 576,180</u>	<u>\$ 830,298</u>	<u>\$ 3,658,820</u>

Other Financial and Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

Nonmajor Debt Service Funds

General Drain	RS&T Debt Service	Settlement Bond	Road Bond Debt Retirement	Limited Tax General Obligation	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
\$ 24,772	\$ 10,575	\$ 1,188	\$ 16,729	\$ 40,492	\$ 93,756	\$ 1,540,662
-	-	-	50,000	-	50,000	1,550,000
-	-	-	-	-	-	38,143
-	-	-	-	-	-	343,286
-	-	-	537	-	537	10,264
-	-	-	-	-	-	9,440
-	-	-	-	-	-	144
-	-	-	-	-	-	311,174
<u>\$ 24,772</u>	<u>\$ 10,575</u>	<u>\$ 1,188</u>	<u>\$ 67,266</u>	<u>\$ 40,492</u>	<u>\$ 144,293</u>	<u>\$ 3,803,113</u>
\$ 244	\$ 195	\$ -	\$ -	\$ -	\$ 439	\$ 27,971
-	-	-	14,677	10,472	25,149	25,149
-	-	-	-	-	-	162,140
-	-	-	-	-	-	343,286
244	195	-	14,677	10,472	25,588	558,546
-	-	-	-	-	-	24,906
-	-	-	-	-	-	978,203
24,528	10,380	1,188	52,589	30,020	118,705	118,705
-	-	-	-	-	-	802,645
-	-	-	-	-	-	1,320,108
<u>24,528</u>	<u>10,380</u>	<u>1,188</u>	<u>52,589</u>	<u>30,020</u>	<u>118,705</u>	<u>3,244,567</u>
<u>\$ 24,772</u>	<u>\$ 10,575</u>	<u>\$ 1,188</u>	<u>\$ 67,266</u>	<u>\$ 40,492</u>	<u>\$ 144,293</u>	<u>\$ 3,803,113</u>

City of Sterling Heights, Michigan

Nonmajor Special Revenue Funds					
	Budget Stabilization	Local Roads	Land and Water Conservation	Public Safety Forfeiture	Total Nonmajor Special Revenue Funds
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	382,638	382,638
State sources	-	1,979,912	199,694	456,367	2,635,973
Interest income	-	20,882	23,479	-	44,361
Other	-	160,939	-	-	160,939
Total revenues	-	2,161,733	223,173	839,005	3,223,911
Expenditures					
Current:					
Public works	-	1,835,221	-	-	1,835,221
Public safety	-	-	-	124,226	124,226
Other	-	-	-	-	-
Capital outlay	-	1,452,906	108,684	243,752	1,805,342
Debt service	-	-	-	-	-
Total expenditures	-	3,288,127	108,684	367,978	3,764,789
Excess of Revenues Over (Under)					
Expenditures	-	(1,126,394)	114,489	471,027	(540,878)
Other Financing Sources -					
Transfers in	-	1,575,000	74,400	-	1,649,400
Change in Fund Balances	-	448,606	188,889	471,027	1,108,522
Fund Balances - Beginning of year	750,000	547,723	381,219	338,398	2,017,340
Fund Balances - End of year	\$ 750,000	\$ 996,329	\$ 570,108	\$ 809,425	\$ 3,125,862

**Other Financial and Supplemental Information
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2007**

Nonmajor Debt Service Funds						
General Drain	RS&T Debt Service	Settlement Bond	Road Bond Debt Retirement	Limited Tax General Obligation	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
\$ 1,214,130	\$ 973,391	\$ -	\$ -	\$ -	\$ 2,187,521	\$ 2,187,521
-	-	-	-	-	-	382,638
-	-	-	-	-	-	2,635,973
31,120	5,211	6,240	14,828	1,735	59,134	103,495
-	-	-	-	-	-	160,939
1,245,250	978,602	6,240	14,828	1,735	2,246,655	5,470,566
-	-	-	-	-	-	1,835,221
-	-	-	-	-	-	124,226
23,010	45,381	20,980	1,825	1,050	92,246	92,246
-	-	-	-	-	-	1,805,342
1,250,882	972,806	11,100,789	2,356,665	655,614	16,336,756	16,336,756
1,273,892	1,018,187	11,121,769	2,358,490	656,664	16,429,002	20,193,791
(28,642)	(39,585)	(11,115,529)	(2,343,662)	(654,929)	(14,182,347)	(14,723,225)
-	40,000	11,097,320	2,200,000	679,315	14,016,635	15,666,035
(28,642)	415	(18,209)	(143,662)	24,386	(165,712)	942,810
53,170	9,965	19,397	196,251	5,634	284,417	2,301,757
\$ 24,528	\$ 10,380	\$ 1,188	\$ 52,589	\$ 30,020	\$ 118,705	\$ 3,244,567

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds Year Ended June 30, 2007

Special Revenue Fund - Budget Stabilization

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 750,000	\$ 750,000	\$ 750,000	\$ -
Resources (Inflows)	-	-	-	-
Fund Balance - End of year	<u>\$ 750,000</u>	<u>\$ 750,000</u>	<u>\$ 750,000</u>	<u>\$ -</u>

Special Revenue Fund - Local Roads

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 547,723	\$ 547,723	\$ 547,723	\$ -
Resources (Inflows)				
State sources	1,995,000	1,985,000	1,979,912	(5,088)
Charges for services	80,000	50,000	34,690	(15,310)
Other	75,000	34,550	147,131	112,581
Transfer from other funds	<u>1,575,000</u>	<u>1,575,000</u>	<u>1,575,000</u>	<u>-</u>
Total resources (inflows)	3,725,000	3,644,550	3,736,733	92,183
Charges to Appropriations (Outflows)				
Administration	149,700	149,700	148,173	1,527
Local street maintenance	1,591,280	1,633,280	1,687,048	(53,768)
Local street improvements	<u>1,704,890</u>	<u>1,722,750</u>	<u>1,452,906</u>	<u>269,844</u>
Total charges to appropriations (outflows)	<u>3,445,870</u>	<u>3,505,730</u>	<u>3,288,127</u>	<u>217,603</u>
Fund Balance - End of year	<u>\$ 826,853</u>	<u>\$ 686,543</u>	<u>\$ 996,329</u>	<u>\$ 309,786</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2007

Special Revenue Fund - Land and Water Conservation

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 381,219	\$ 381,219	\$ 381,219	\$ -
Resources (Inflows)				
Federal and state sources	16,000	205,690	199,694	(5,996)
Other	205,000	25,000	23,479	(1,521)
Transfers from other funds	<u>74,400</u>	<u>74,400</u>	<u>74,400</u>	<u>-</u>
Total resources (inflows)	295,400	305,090	297,573	(7,517)
Charges to Appropriations (Outflows)				
Land acquisition	-	21,250	21,230	20
Land improvements	<u>86,400</u>	<u>87,240</u>	<u>87,454</u>	<u>(214)</u>
Total charges to appropriations (outflows)	<u>86,400</u>	<u>108,490</u>	<u>108,684</u>	<u>(194)</u>
Fund Balance - End of year	<u><u>\$ 590,219</u></u>	<u><u>\$ 577,819</u></u>	<u><u>\$ 570,108</u></u>	<u><u>\$ (7,711)</u></u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2007

Special Revenue Fund - Public Safety Forfeiture Fund

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 338,398	\$ 338,398	\$ 338,398	\$ -
Resources (Inflows)				
Federal justice forfeitures	-	282,350	275,158	(7,192)
Federal treasury forfeitures	-	92,010	92,010	-
State forfeitures	-	399,510	401,116	1,606
Gambling forfeitures	-	25,720	26,804	1,084
Other forfeitures	-	3,570	12,935	9,365
Interest income	-	23,370	30,982	7,612
Total resources (inflows)	-	826,530	839,005	12,475
Charges to Appropriations (Outflows)				
Federal forfeiture expenditures	143,060	212,580	169,756	42,824
State forfeiture expenditures	82,500	232,700	197,007	35,693
Gambling forfeiture expenditures	-	810	1,215	(405)
Total charges to appropriations (outflows)	225,560	446,090	367,978	78,112
Fund Balance - End of year	\$ 112,838	\$ 718,838	\$ 809,425	\$ 90,587

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2007

Debt Service Fund - General Drain

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 53,170	\$ 53,170	\$ 53,170	\$ -
Resources (Inflows)				
Property taxes	1,209,530	1,209,530	1,208,787	(743)
Other revenue	16,000	32,000	31,120	(880)
Delinquents and penalties	5,000	5,500	5,343	(157)
Total resources (inflows)	1,230,530	1,247,030	1,245,250	(1,780)
Charges to Appropriations (Outflows)				
Other charges	4,650	24,280	23,010	1,270
Principal	905,000	905,000	905,000	-
Interest	345,880	345,880	345,882	(2)
Total charges to appropriations (outflows)	1,255,530	1,275,160	1,273,892	1,268
Fund Balance - End of year	\$ 28,170	\$ 25,040	\$ 24,528	\$ (512)

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2007

Debt Service Fund - RS&T Debt Service

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 9,965	\$ 9,965	\$ 9,965	\$ -
Resources (Inflows)				
Property taxes	969,540	969,540	969,200	(340)
Delinquents and penalties	3,000	4,000	4,191	191
Other revenue	2,500	5,500	5,211	
Transfers from other funds	-	40,000	40,000	(289)
Total resources (inflows)	975,040	1,019,040	1,018,602	(438)
Charges to Appropriations (Outflows)				
Proposal R	975,040	1,015,540	1,013,860	(1,680)
Proposal S	-	4,330	4,327	(3)
Total charges to appropriations (outflows)	975,040	1,019,870	1,018,187	1,683
Fund Balance - End of year	<u>\$ 9,965</u>	<u>\$ 9,135</u>	<u>\$ 10,380</u>	<u>\$ 1,245</u>

Debt Service Fund - Settlement Bond

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 19,397	\$ 19,397	\$ 19,397	\$ -
Resources (Inflows)				
Other revenue	14,000	14,000	6,240	(7,760)
Transfer from other funds	1,920,000	11,097,320	11,097,320	-
Total resources (inflows)	1,934,000	11,111,320	11,103,560	(7,760)
Charges to Appropriations (Outflows)				
Principal	830,000	9,980,000	9,980,000	-
Interest	1,114,300	1,120,790	1,120,789	1
Other	250	21,080	20,980	100
Total charges to appropriations (outflows)	1,944,550	11,121,870	11,121,769	101
Fund Balance - End of year	<u>\$ 8,847</u>	<u>\$ 8,847</u>	<u>\$ 1,188</u>	<u>\$ (7,659)</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2007

Debt Service Fund - Road Bond Debt Retirement

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 196,251	\$ 196,251	\$ 196,251	\$ -
Resources (Inflows)				
Other revenue	10,000	16,000	14,828	(1,172)
Transfer from other funds	<u>2,200,000</u>	<u>2,200,000</u>	<u>2,200,000</u>	<u>-</u>
Total resources (inflows)	2,210,000	2,216,000	2,214,828	(1,172)
Charges to Appropriations (Outflows)				
Other	1,500	1,830	1,825	5
Principal	1,730,000	1,730,000	1,730,000	-
Interest	<u>626,670</u>	<u>626,670</u>	<u>626,665</u>	<u>5</u>
Total charges to appropriations (outflows)	<u>2,358,170</u>	<u>2,358,500</u>	<u>2,358,490</u>	<u>10</u>
Fund Balance - End of year	<u><u>\$ 48,081</u></u>	<u><u>\$ 53,751</u></u>	<u><u>\$ 52,589</u></u>	<u><u>\$ (1,162)</u></u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2007

Debt Service Fund - Limited Tax General Obligation

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 5,634	\$ 5,634	\$ 5,634	\$ -
Resources (Inflows)				
Other revenue	1,000	1,500	1,735	235
Transfer from other funds	960,000	679,320	679,315	(5)
Total resources (inflows)	961,000	680,820	681,050	230
Charges to Appropriations (Outflows)				
Other charges	950	1,050	1,050	-
Principal	755,000	485,000	485,000	-
Interest	208,110	170,620	170,614	6
Total charges to appropriations (outflows)	964,060	656,670	656,664	6
Fund Balance - End of year	<u>\$ 2,574</u>	<u>\$ 29,784</u>	<u>\$ 30,020</u>	<u>\$ 236</u>

Major Funds

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Major Capital Projects Funds Year Ended June 30, 2007

Capital Projects Fund - General Improvements

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 3,541,977	\$ 3,541,977	\$ 3,541,977	\$ -
Resources (Inflows)				
Federal, state, and local sources	116,790	708,410	1,286,478	578,068
Penalties and interest	2,500	2,500	1,283	(1,217)
Other revenue	653,050	749,050	715,881	(33,169)
Proceeds from long-term debt	3,301,400	3,250,000	3,276,815	26,815
Transfer from other funds	1,600,720	1,600,720	1,600,720	-
Total resources (inflows)	5,674,460	6,310,680	6,881,177	570,497
Charges to Appropriations (Outflows)				
Capital equipment	1,870,120	2,468,710	2,741,898	(273,188)
Capital vehicles	707,000	1,159,360	867,000	292,360
Capital projects	3,542,300	3,460,990	3,024,523	436,467
Transfer to other funds	1,320,000	1,346,820	1,346,815	5
Total charges to appropriations (outflows)	7,439,420	8,435,880	7,980,236	455,644
Fund Balance - End of year	<u>\$ 1,777,017</u>	<u>\$ 1,416,777</u>	<u>\$ 2,442,918</u>	<u>\$ 1,026,141</u>

Capital Projects Fund - Road Bond Construction

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 674,401	\$ 674,401	\$ 674,401	\$ -
Resources (Inflows)				
Other revenues	15,000	76,580	73,306	(3,274)
Proceeds from long-term debt	4,600,000	4,650,000	4,650,000	-
Total resources (inflows)	4,615,000	4,726,580	4,723,306	(3,274)
Charges to Appropriations (Outflows) -				
Capital outlay	5,025,200	4,851,150	4,694,041	157,109
Fund Balance - End of year	<u>\$ 264,201</u>	<u>\$ 549,831</u>	<u>\$ 703,666</u>	<u>\$ 153,835</u>

Fiduciary and Agency Funds

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Net Assets Trust Funds June 30, 2007

	Trust Funds			
	Pension and Other Retirement Benefits Funds			
	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Total
Assets				
Cash and cash equivalents	\$ 5,202,977	\$ 6,201,441	\$ 128,182	\$ 11,532,600
Investments - At fair value:				
Government securities	7,487,877	16,758,708	2,987,828	27,234,413
Corporate bonds	31,902,038	57,985,078	561,997	90,449,113
Common and preferred stocks	86,183,466	121,508,776	10,848,169	218,540,411
Pooled investments	-	10,002,259	-	10,002,259
Cash and investments held as collateral for securities lending	8,430,749	27,894,289	-	36,325,038
Receivables - Accrued interest	370,613	686,930	-	1,057,543
Total assets	139,577,720	241,037,481	14,526,176	395,141,377
Liabilities				
Accounts payable	357,073	1,094,940	2,999	1,455,012
Accrued and other liabilities	1,343,907	3,447,981	8,725	4,800,613
Amounts due to broker under securities lending agreements	8,430,749	27,894,289	-	36,325,038
Due to other governmental units	-	-	296,960	296,960
Provision for uninsured losses and liabilities	-	-	530,412	530,412
Deferred revenue	3,051	-	-	3,051
Total liabilities	10,134,780	32,437,210	839,096	43,411,086
Net Assets - Held in trust for pension and other retirement benefits	\$ 129,442,940	\$ 208,600,271	\$ 13,687,080	\$ 351,730,291

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Trust Funds Year Ended June 30, 2007

	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Total
Additions				
Investment income (loss):				
Interest and dividends	\$ 3,282,943	\$ 6,274,440	\$ 312,992	\$ 9,870,375
Net adjustment to fair value of investments	13,139,041	16,583,244	1,458,125	31,180,410
Less investment expenses	-	(1,114,306)	(105,053)	(1,219,359)
Net investment income	16,421,984	21,743,378	1,666,064	39,831,426
Securities lending income:				
Interest and fees	786,509	1,384,400	-	2,170,909
Less borrower rebates and bank fees	(768,053)	(1,352,038)	-	(2,120,091)
Net securities lending income	18,456	32,362	-	50,818
Contributions:				
Employer	-	2,646,459	7,028,410	9,674,869
Employee	788,674	1,248,718	-	2,037,392
Purchase of prior year's service credits	1,166,814	-	-	1,166,814
Insurance recovery	-	-	103,310	103,310
Total additions	18,395,928	25,670,917	8,797,784	52,864,629
Deductions				
Benefit payments	4,085,110	10,912,214	4,411,496	19,408,820
Refunds of contributions	473,842	1,007,685	-	1,481,527
Total deductions	4,558,952	11,919,899	4,411,496	20,890,347
Net Change in Net Assets	13,836,976	13,751,018	4,386,288	31,974,282
Net Assets - Beginning of year	115,605,964	194,849,253	9,300,792	319,756,009
Net Assets - End of year	<u>\$ 129,442,940</u>	<u>\$ 208,600,271</u>	<u>\$ 13,687,080</u>	<u>\$ 351,730,291</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Net Assets Agency Funds June 30, 2007

	Agency Funds		
	Tax Collections	General Agency	Total
Assets			
Cash and cash equivalents	\$ 59,540	\$ 506,492	\$ 566,032
Investments - At fair value:			
Government securities	-	2,734,175	2,734,175
Short-term investment funds	-	1,330,000	1,330,000
Receivables - Accrued interest	-	47,495	47,495
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 59,540</u>	<u>\$ 4,618,162</u>	<u>\$ 4,677,702</u>
Liabilities			
Accrued and other liabilities	\$ 5,215	\$ 1,490,636	\$ 1,495,851
Due to other governmental units	54,325	93,581	147,906
Cash bonds and deposits	-	3,033,945	3,033,945
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>\$ 59,540</u>	<u>\$ 4,618,162</u>	<u>\$ 4,677,702</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Assets and Liabilities Agency Funds Year Ended June 30, 2007

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
<u>Tax Collection</u>				
Assets - Cash and cash equivalents	\$ 14,987	\$ 151,615,580	\$ 151,571,027	\$ 59,540
Liabilities				
Accrued and other liabilities	\$ 4,266	\$ 276,184	\$ 275,235	\$ 5,215
Due to other governmental units	10,721	197,781,290	197,737,686	54,325
Total liabilities	\$ 14,987	\$ 198,057,474	\$ 198,012,921	\$ 59,540
<u>General Agency</u>				
Assets				
Cash and cash equivalents	\$ 162,135	\$ 12,221,920	\$ 11,877,563	\$ 506,492
Investments - At fair value	4,342,725	10,821,769	11,100,319	4,064,175
Receivables - Accrued interest	53,493	349,402	355,400	47,495
Due from other governmental units	9,349	223,154	232,503	-
Total assets	\$ 4,567,702	\$ 23,616,245	\$ 23,565,785	\$ 4,618,162
Liabilities				
Accounts payable	\$ 17,556	\$ 1,426,288	\$ 1,443,844	\$ -
Accrued and other liabilities	1,583,129	342,517	435,010	1,490,636
Due to other governmental units	130,151	20,222,129	20,258,699	93,581
Cash and bond deposits	2,836,866	2,768,707	2,571,628	3,033,945
Total liabilities	\$ 4,567,702	\$ 24,759,641	\$ 24,709,181	\$ 4,618,162
<u>Totals - All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 177,122	\$ 163,837,500	\$ 163,448,590	\$ 566,032
Investments - At fair value	4,342,725	10,821,769	11,100,319	4,064,175
Receivables - Accrued interest	53,493	349,402	355,400	47,495
Due from other governmental units	9,349	223,154	232,503	-
Total assets	\$ 4,582,689	\$ 175,231,825	\$ 175,136,812	\$ 4,677,702
Liabilities				
Accounts payable	\$ 17,556	\$ 1,426,288	\$ 1,443,844	\$ -
Accrued and other liabilities	1,587,395	618,701	710,245	1,495,851
Due to other governmental units	140,872	218,003,419	217,996,385	147,906
Cash and bond deposits	2,836,866	2,768,707	2,571,628	3,033,945
Total liabilities	\$ 4,582,689	\$ 222,817,115	\$ 222,722,102	\$ 4,677,702

City Of Sterling Heights, Michigan

Statistical Information and Continuing Disclosure Contents

STATISTICAL INFORMATION

Statistical information contained herein relates to the physical, economic, social, and political characteristics of the City. It is designed to provide a broader and more complete understanding of the City and its financial affairs than is possible from the financial statements, notes, and supporting schedules presented in the financial section.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Net Assets by Component	93
Changes in Net Assets	94
Fund Balances of Governmental Funds	95
Changes in Fund Balances of Governmental Funds	96-97*
General Governmental Tax Revenues by Source	98

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

Property Tax Levies and Collections	99*
Property Tax Rates - Direct and Overlapping Governments	100-101*
Assessed Taxable Values (History of Property Values)	102-103*
Principal Property Taxpayers (Major Taxpayers)	104*

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Ratios of Net General Bonded Debt Outstanding	105
Ratios of Outstanding Debt by Type	106
Direct and Overlapping Governmental Activities Debt	107*
Legal Debt Margin	108*
Legal Debt Margin Information	109
Pledged Revenue Coverage	110

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Demographic and Economic Statistics	111
Miscellaneous Demographics	112
Principal Employers (Major Employers)	113*

* Indicates schedules included in statistical information that fulfill continuing disclosure requirements.

City Of Sterling Heights, Michigan

Statistical Information and Continuing Disclosure Contents (Continued)

STATISTICAL INFORMATION (CONTINUED)

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Operating Indicators by Function	114-115
Capital Asset Statistics by Function	116
Building Permits at Market Value	117
Full-time Equivalent City Government Employees by Function	118

CONTINUING DISCLOSURE

Continuing disclosure information contained herein complies with Rule 15c2-12, a federal regulation promulgated by the Securities and Exchange Commission, designed to improve disclosure practices in the municipal bond market. Municipal bonds issued after July 3, 1995 are subject to this mandatory requirement.

Continuing disclosure requires certain annual financial information and operating data, including audited financial statements for the preceding fiscal year. This information is generally consistent with the information contained or cross-referenced in the official statement relating to the bonds.

State-shared Revenues	120
Gas and Weight Taxes	120
Labor Agreements	121

Statistical Information

City of Sterling Heights, Michigan

Net Assets by Component Last Six Fiscal Years (Accrual Basis of Accounting)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Governmental activities:						
Invested in capital assets - Net of related debt	\$ 149,115,930	\$ 157,319,066	\$ 164,071,091	\$ 165,784,014	\$ 171,697,125	\$ 175,544,446
Restricted	18,041,590	13,918,356	8,845,442	5,537,300	13,956,025	6,601,883
Unrestricted	27,748,112	29,284,871	(2,714,472)	(3,747,590)	7,320,525	20,524,819
Total governmental activities - Net assets	<u>\$ 194,905,632</u>	<u>\$ 200,522,293</u>	<u>\$ 170,202,061</u>	<u>\$ 167,573,724</u>	<u>\$ 192,973,675</u>	<u>\$ 202,671,148</u>
Business-type activities:						
Invested in capital assets - Net of related debt	\$ 127,892,311	\$ 131,088,312	\$ 135,546,803	\$ 135,416,064	\$ 139,088,895	\$ 137,413,059
Restricted	9,064,472	9,286,673	8,525,469	9,029,341	7,050,855	7,418,300
Unrestricted	22,169,256	24,155,268	23,976,948	23,607,368	28,265,921	29,163,010
Total business-type activities - Net assets	<u>\$ 159,126,039</u>	<u>\$ 164,530,253</u>	<u>\$ 168,049,220</u>	<u>\$ 168,052,773</u>	<u>\$ 174,405,671</u>	<u>\$ 173,994,369</u>
Primary government:						
Invested in capital assets - Net of related debt	\$ 277,008,241	\$ 288,407,378	\$ 299,617,894	\$ 301,200,078	\$ 310,786,020	\$ 312,957,505
Restricted	27,106,062	23,205,029	17,370,911	14,566,641	21,006,880	14,020,183
Unrestricted	49,917,368	53,440,139	21,262,476	19,859,778	35,586,446	49,687,829
Total primary government - Net assets	<u>\$ 354,031,671</u>	<u>\$ 365,052,546</u>	<u>\$ 338,251,281</u>	<u>\$ 335,626,497</u>	<u>\$ 367,379,346</u>	<u>\$ 376,665,517</u>

City of Sterling Heights, Michigan

Changes in Net Assets Last Six Fiscal Years (Accrual Basis of Accounting)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Expenses						
Governmental activities:						
General government	\$ 7,958,782	\$ 8,710,448	\$ 9,499,251	\$ 9,873,718	\$ 8,760,970	\$ 10,348,927
41A District Court	2,354,295	2,480,824	2,690,360	2,852,812	2,864,422	2,992,184
Public safety	33,975,838	37,066,435	39,815,539	42,253,545	41,327,439	43,995,464
Public works	22,945,588	22,555,042	22,838,480	25,464,111	24,181,418	22,603,155
Recreation and culture	5,184,217	5,476,196	6,047,819	5,716,243	5,989,344	5,890,651
Interest on long-term debt	2,243,791	2,266,350	2,022,258	2,585,777	2,463,042	1,922,125
Total governmental activities expenses	74,662,511	78,555,295	82,913,707	88,746,206	85,586,635	87,752,506
Business-type activities - Water and sewer	23,004,156	23,267,170	25,829,284	28,142,434	28,106,435	30,290,386
Total primary government expenses	<u>\$ 97,666,667</u>	<u>\$ 101,822,465</u>	<u>\$ 108,742,991</u>	<u>\$ 116,888,640</u>	<u>\$ 113,693,070</u>	<u>\$ 118,042,892</u>
Program Revenues						
Governmental activities:						
Charges for services:						
General government	\$ 830,931	\$ 709,161	\$ 714,601	\$ 844,263	\$ 1,829,127	\$ 2,022,680
41A District Court	1,779,233	1,831,676	2,136,354	2,320,411	2,424,477	2,185,724
Public safety	1,394,218	728,790	1,114,300	1,249,154	1,394,981	1,326,061
Public works	4,922,913	3,566,606	3,855,774	6,241,366	6,813,150	8,125,228
Recreation and culture	411,642	425,400	465,391	513,241	583,627	563,152
Operating grants and contributions	8,803,688	8,811,085	10,284,432	9,547,201	9,184,599	9,148,913
Capital grants and contributions	231,693	1,777,966	3,142,226	1,336,930	2,751,871	2,638,714
Total governmental activities program revenues	18,374,318	17,850,684	21,713,078	22,052,566	24,981,832	26,010,472
Business-type activities - Water and sewer:						
Charges for services	17,625,565	20,563,318	20,385,299	22,619,205	24,944,170	25,404,755
Operating grants and contributions	-	30,806	-	-	-	-
Capital grants and contributions	4,385,957	6,847,385	8,430,400	4,911,208	8,364,981	2,662,317
Total business-type activities program revenues	22,011,522	27,441,509	28,815,699	27,530,413	33,309,151	28,067,072
Total primary government program revenues	<u>\$ 40,385,840</u>	<u>\$ 45,292,193</u>	<u>\$ 50,528,777</u>	<u>\$ 49,582,979</u>	<u>\$ 58,290,983</u>	<u>\$ 54,077,544</u>
Net (Expense) Revenue						
Governmental activities	\$ (56,288,193)	\$ (60,704,611)	\$ (61,200,629)	\$ (66,693,640)	\$ (60,604,803)	\$ (61,742,034)
Business-type activities	(992,634)	4,174,339	2,986,415	(612,021)	5,202,716	(2,223,314)
Total primary government net expense	<u>\$ (57,280,827)</u>	<u>\$ (56,530,272)</u>	<u>\$ (58,214,214)</u>	<u>\$ (67,305,661)</u>	<u>\$ (55,402,087)</u>	<u>\$ (63,965,348)</u>
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Property taxes	\$ 44,784,294	\$ 46,791,310	\$ 48,495,510	\$ 50,357,630	\$ 52,574,000	\$ 55,624,617
State-shared revenues	13,315,069	14,431,298	11,249,778	11,127,156	11,003,347	10,675,667
Interest	1,913,772	2,058,855	709,149	1,155,124	2,034,936	3,383,824
Gain on sale of capital assets	975,870	-	-	105,454	256,994	227,321
Insurance proceeds	-	-	-	-	18,763,736	-
Franchise fees and other	1,769,580	3,039,809	1,425,963	1,319,937	1,371,831	1,527,988
Extraordinary item	-	-	(31,000,000)	-	-	-
Total governmental activities expenses	62,758,585	66,321,272	30,880,400	64,065,301	86,004,844	71,439,417
Business-type activities - Interest	1,036,590	1,229,875	532,552	615,574	1,150,182	1,812,012
Total primary government	<u>\$ 63,795,175</u>	<u>\$ 67,551,147</u>	<u>\$ 31,412,952</u>	<u>\$ 64,680,875</u>	<u>\$ 87,155,026</u>	<u>\$ 73,251,429</u>
Change in Net Assets						
Governmental activities	\$ 6,470,392	\$ 5,616,661	\$ (30,320,229)	\$ (2,628,339)	\$ 25,400,041	\$ 9,697,383
Business-type activities	43,956	5,404,214	3,518,967	3,553	6,352,898	(411,302)
Total primary government	<u>\$ 6,514,348</u>	<u>\$ 11,020,875</u>	<u>\$ (26,801,262)</u>	<u>\$ (2,624,786)</u>	<u>\$ 31,752,939</u>	<u>\$ 9,286,081</u>

City of Sterling Heights, Michigan

Fund Balances of Governmental Funds Last Ten Fiscal Years (Modified Accrual Basis of Accounting)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Fund:										
Reserved	\$ 613,308	\$ 581,251	\$ 617,242	\$ 528,424	\$ 489,404	\$ 580,930	\$ 593,593	\$ 655,400	\$ 662,581	\$ 679,962
Unreserved	<u>14,482,786</u>	<u>16,687,536</u>	<u>14,915,455</u>	<u>15,923,759</u>	<u>17,346,558</u>	<u>17,641,156</u>	<u>19,057,927</u>	<u>13,345,638</u>	<u>14,387,663</u>	<u>15,037,933</u>
Total General Fund	<u>\$ 15,096,094</u>	<u>\$ 17,268,787</u>	<u>\$ 15,532,697</u>	<u>\$ 16,452,183</u>	<u>\$ 17,835,962</u>	<u>\$ 18,222,086</u>	<u>\$ 19,651,520</u>	<u>\$ 14,001,038</u>	<u>\$ 15,050,244</u>	<u>\$ 15,717,895</u>
All other governmental funds:										
Reserved	\$ 442,252	\$ 1,159,916	\$ 1,690,683	\$ 1,982,635	\$ 679,942	\$ 1,060,623	\$ 1,027,906	\$ 735,565	\$ 1,536,063	\$ 534,266
Unreserved, reported in:										
Special Revenue Funds	9,122,244	15,110,643	17,671,853	17,255,612	20,268,530	15,588,126	10,981,941	5,168,955	2,547,940	5,810,853
Debt Service Funds	1,062,558	949,523	791,593	599,914	545,540	277,483	248,467	236,999	284,417	118,705
Capital Projects Funds	<u>5,487,619</u>	<u>7,982,621</u>	<u>6,006,021</u>	<u>4,685,906</u>	<u>5,136,412</u>	<u>3,866,901</u>	<u>2,861,154</u>	<u>3,446,888</u>	<u>3,756,197</u>	<u>2,662,224</u>
Total all other governmental funds	<u>\$ 16,114,673</u>	<u>\$ 25,202,703</u>	<u>\$ 26,160,150</u>	<u>\$ 24,524,067</u>	<u>\$ 26,630,424</u>	<u>\$ 20,793,133</u>	<u>\$ 15,119,468</u>	<u>\$ 9,588,407</u>	<u>\$ 8,124,617</u>	<u>\$ 9,126,048</u>

City of Sterling Heights, Michigan

	1998	1999	2000	2001	2002 (1)
Revenues					
Property taxes	\$ 38,377,602	\$ 39,847,195	\$ 41,266,995	\$ 42,155,402	\$ 44,773,685
Fees and permits	1,927,254	1,950,414	1,855,159	2,253,273	1,916,542
Federal sources	1,749,186	1,016,601	1,178,322	1,657,762	1,280,774
State and local sources	18,040,933	18,653,817	19,281,979	20,293,929	20,676,922
Fines and forfeitures	2,608,848	2,776,653	2,798,853	2,781,114	2,299,389
Charges for services	5,097,114	5,371,619	5,451,881	5,791,473	5,514,851
Interest income	2,394,710	2,692,819	3,424,163	3,509,122	1,921,851
Special assessments	437,830	443,641	319,727	164,086	179,973
Rental income	944,852	1,075,936	1,035,063	1,240,272	1,047,761
Cable revenue	673,080	868,817	972,802	1,264,214	1,302,183
Other	1,944,402	1,231,428	1,388,993	1,110,088	2,074,758
Total revenues	74,195,811	75,928,940	78,973,937	82,220,735	82,988,689
Expenditures					
Current:					
General government	6,938,739	7,030,523	7,663,131	8,368,507	8,550,972
41A District Court	2,072,201	2,044,259	1,999,838	2,131,093	2,178,525
Public safety	27,118,090	26,932,023	28,089,598	30,386,650	30,913,608
Public works	14,503,055	14,885,110	15,456,764	16,492,407	16,910,029
Recreation and culture	3,633,902	3,619,970	3,795,871	4,035,209	4,323,476
General expenditures	2,313,442	2,438,087	2,505,031	2,454,301	2,539,196
Capital outlay	11,658,975	12,500,787	18,815,645	14,107,920	13,053,333
Debt service:					
Principal	4,106,116	4,857,770	5,299,440	5,667,440	5,051,381
Interest	1,980,260	1,975,190	1,994,942	2,380,172	2,243,791
Total expenditures	74,324,780	76,283,719	85,620,260	86,023,699	85,764,311
Excess of Expenditures Over Revenues	(128,969)	(354,779)	(6,646,323)	(3,802,964)	(2,775,622)
Other Financing Sources (Uses)					
Long-term financing	4,811,775	9,120,500	7,859,080	4,421,872	1,725,000
Proceeds from sale of fixed assets	-	-	-	-	1,338,442
Bond premium	-	-	-	-	-
Net payments to refunded bond escrow agent and bond issuance costs	-	-	-	-	-
Transfers in	9,329,011	10,546,430	10,050,315	10,389,950	12,319,565
Transfers out	(9,329,011)	(10,546,430)	(10,050,315)	(10,389,950)	(12,319,565)
Total other financing sources (uses)	4,811,775	9,120,500	7,859,080	4,421,872	3,063,442
Net Change in Fund Balances - Before extraordinary items	4,682,806	8,765,721	1,212,757	618,908	287,820
Extraordinary Items - Lawsuit settlement payments	-	-	-	-	-
Net Change in Fund Balances	\$ 4,682,806	\$ 8,765,721	\$ 1,212,757	\$ 618,908	\$ 287,820
Debt Service as a Percentage of Noncapital Expenditures	9.71%	10.71%	10.92%	11.19%	10.03%

(1) Information presented prior to the implementation of GASB No. 34 has been combined to reflect such activity.

**Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)**

2003	2004	2005	2006	2007
\$ 46,791,310	\$ 48,495,510	\$ 50,357,630	\$ 52,574,000	\$ 55,624,617
2,036,864	2,318,120	2,012,360	1,986,333	1,784,156
752,977	1,629,936	2,069,321	3,198,148	2,755,145
20,161,887	20,176,008	19,607,043	19,721,028	19,894,287
2,587,756	3,069,824	2,995,613	2,890,745	2,563,520
5,875,269	6,334,722	6,695,039	7,795,120	8,038,601
1,760,354	567,049	977,664	1,788,092	2,511,234
68,497	372,917	73,776	28,017	130,082
1,253,148	1,298,796	1,566,845	1,357,037	1,443,651
1,120,768	1,224,778	1,319,937	1,371,831	1,527,988
1,927,055	2,758,591	1,980,022	1,731,700	1,511,396
84,335,885	88,246,251	89,655,250	94,442,051	97,784,677
8,733,703	9,091,026	10,042,438	10,109,764	10,562,158
2,173,817	2,342,220	2,472,160	2,660,587	2,847,111
33,857,315	35,779,556	38,346,169	39,440,275	41,610,977
18,334,751	18,280,775	21,418,948	18,545,503	18,734,562
4,447,809	4,553,035	4,669,116	4,868,429	5,180,497
2,771,249	3,388,336	2,651,054	3,555,955	3,791,084
11,763,846	13,041,634	12,476,405	10,576,821	14,756,585
4,466,382	4,436,681	5,056,539	5,030,000	14,000,000
1,968,669	1,827,203	2,334,584	2,479,375	2,336,756
88,517,541	92,740,466	99,467,413	97,266,709	113,819,730
(4,181,656)	(4,494,215)	(9,812,163)	(2,824,658)	(16,035,053)
4,916,772	30,355,000	13,720,000	-	7,900,000
-	-	476,081	550,074	-
-	975,374	91,759	-	26,815
(4,916,772)	(5,075,000)	(8,511,067)	-	-
8,807,280	6,462,170	8,354,684	9,931,683	18,458,535
(8,807,280)	(6,462,170)	(6,639,684)	(8,071,683)	(8,681,215)
-	26,255,374	7,491,773	2,410,074	17,704,135
(4,181,656)	21,761,159	(2,320,390)	(414,584)	1,669,082
-	(25,000,000)	(6,000,000)	-	-
\$ (4,181,656)	\$ (3,238,841)	\$ (8,320,390)	\$ (414,584)	\$ 1,669,082
8.38%	7.86%	8.50%	8.66%	16.49%

City of Sterling Heights, Michigan

General Government Tax Revenues by Source Last Ten Fiscal Years

Fiscal Year Ended June 30	General Fund Property Taxes				Debt Service Funds Property Taxes			Total All Property Taxes
	Operating	Refuse	Police and Fire	Total	General Drain	RS&T Debt	Total	
			Retirement System			Service		
1998	\$ 28,788,728	\$ 3,451,184	\$ 3,228,325	\$ 35,468,237	\$ 706,307	\$ 2,203,057	\$ 2,909,364	\$ 38,377,601
1999	30,117,888	3,575,404	2,514,557	36,207,849	1,036,993	2,602,354	3,639,347	39,847,196
2000	31,106,672	3,937,131	2,120,379	37,164,182	1,096,095	3,006,718	4,102,813	41,266,995
2001	31,836,229	4,231,574	2,207,727	38,275,530	818,785	3,061,087	3,879,872	42,155,402
2002	35,424,907	4,396,245	1,579,658	41,400,810	1,295,294	2,077,581	3,372,875	44,773,685
2003	36,500,172	4,660,074	2,746,657	43,906,903	1,435,644	1,448,763	2,884,407	46,791,310
2004	37,409,166	4,881,818	3,564,147	45,855,131	1,536,014	1,104,365	2,640,379	48,495,510
2005	38,420,002	5,203,504	4,204,831	47,828,337	1,429,947	1,099,346	2,529,293	50,357,630
2006	43,370,304	4,070,410	2,993,592	50,434,306	1,202,642	937,052	2,139,694	52,574,000
2007	46,585,168	4,205,469	2,646,459	53,437,096	1,214,130	973,391	2,187,521	55,624,617

City of Sterling Heights, Michigan

Property Tax Levies and Collections Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Total Tax Levy (1)	Collected Within the Fiscal Year of the Levy Amount	Percentage of Levy	Subsequent Collection of Delinquent Taxes	Total Collections to Date Amount	Percentage of Levy
1997	1998	\$ 38,183,037	\$ 37,679,804	98.68	\$ 428,812	\$ 38,108,616	99.81
1998	1999	39,769,794	39,186,402	98.53	533,033	39,719,435	99.87
1999	2000	41,262,657	40,512,689	98.18	594,083	41,106,772	99.62
2000	2001	42,334,773	41,427,546	97.86	581,589	42,009,135	99.23
2001	2002	44,791,080	43,840,834	97.88	602,398	44,443,232	99.22
2002	2003	46,900,401	45,827,067	97.71	710,729	46,537,796	99.23
2003	2004	48,561,542	47,590,646	98.00	680,399	48,271,045	99.40
2004	2005	50,166,920	49,462,142	98.60	679,140	50,141,282	99.95
2005	2006	52,325,289	51,316,165	98.07	962,656	52,278,821	99.91
2006	2007	55,485,078	54,001,323	97.33	1,329,962	55,331,285	99.72
2007	2008	58,015,198 (2)					

(1) Includes operational, refuse, public improvement, and general drain taxes, but does not include penalty and interest on late payment of taxes.

(2) The estimated tax levy is based on the summer tax receivable schedule. This levy will only change due to STC, MTT, and/or Board of Review adjustments and is included to facilitate continuing disclosure requirements.

Source: City Treasurer's Office

City of Sterling Heights, Michigan

City Direct Rates												
Fiscal Year (Tax Year)	Operating (1)	Refuse	Police and Fire Retirement System	Drain Debt Service	Public Improvement Debt Service	Total	Macomb Intermediate School District	Macomb Community College	Huron/ Clinton Metro Authority	S.M.A.R.T.	Macomb County	
											Operating	Drain Debt Service
1998 (1997)												
Homestead	8.60204	1.03121	0.96462	0.21146	0.66067	11.47000	2.03670	1.65390	0.22360	0.33000	4.20000	0.00800
Non-homestead	8.60204	1.03121	0.96462	0.21146	0.66067	11.47000	2.03670	1.65390	0.22360	0.33000	4.20000	0.00800
1999 (1998)												
Homestead	8.47965	1.00665	0.70797	0.29230	0.73343	11.22000	2.03630	1.61340	0.22350	0.32990	4.20000	0.00800
Non-homestead	8.47965	1.00665	0.70797	0.29230	0.73343	11.22000	2.03630	1.61340	0.22350	0.32990	4.20000	0.00800
2000 (1999)												
Homestead	8.26879	1.04657	0.56364	0.29142	0.79958	10.97000	2.02100	1.58400	0.22180	0.32730	4.20000	0.00800
Non-homestead	8.26879	1.04657	0.56364	0.29142	0.79958	10.97000	2.02100	1.58400	0.22180	0.32730	4.20000	0.00800
2001 (2000)												
Homestead	8.08550	1.07470	0.56070	0.21070	0.78840	10.72000	2.02100	1.51400	0.22020	0.32730	4.20000	0.00700
Non-homestead	8.08550	1.07470	0.56070	0.21070	0.78840	10.72000	2.02100	1.51400	0.22020	0.32730	4.20000	0.00700
2002 (2001)												
Homestead	8.43430	1.04670	0.37610	0.30700	0.48590	10.65000	2.00330	1.67070	0.22020	0.32730	4.20000	0.00600
Non-homestead	8.43430	1.04670	0.37610	0.30700	0.48590	10.65000	2.00330	1.67070	0.22020	0.32730	4.20000	0.00600
2003 (2002)												
Homestead	8.29230	1.05870	0.62400	0.32640	0.32860	10.63000	2.98630	1.69250	0.21700	0.60000	4.20000	0.00580
Non-homestead	8.29230	1.05870	0.62400	0.32640	0.32860	10.63000	2.98630	1.69250	0.21700	0.60000	4.20000	0.00580
2004 (2003)												
Homestead	8.19630	1.06960	0.78090	0.33660	0.24160	10.62500	2.97290	1.58590	0.21610	0.59730	4.20000	0.00580
Non-homestead	8.19630	1.06960	0.78090	0.33660	0.24160	10.62500	2.97290	1.58590	0.21610	0.59730	4.20000	0.00580
2005 (2004)												
Homestead	8.09570	1.10550	0.89050	0.30160	0.23170	10.62500	2.96150	1.50020	0.21540	0.59490	4.20000	0.00580
Non-homestead	8.09570	1.10550	0.89050	0.30160	0.23170	10.62500	2.96150	1.50020	0.21540	0.59490	4.20000	0.00580
2006 (2005)												
Homestead	8.76420	0.82660	0.60490	0.24130	0.18800	10.62500	2.94300	1.42120	0.21460	0.59120	4.20000	0.00580
Non-homestead	8.76420	0.82660	0.60490	0.24130	0.18800	10.62500	2.94300	1.42120	0.21460	0.59120	4.20000	0.00580
2007 (2006)												
Homestead	8.97760	0.81420	0.51180	0.23390	0.18750	10.72500	2.94300	1.42120	0.21460	0.59000	4.20000	0.00550
Non-homestead	8.97760	0.81420	0.51180	0.23390	0.18750	10.72500	2.94300	1.42120	0.21460	0.59000	4.20000	0.00550

(1) City general operating tax rate charter limit equals 12.0 mills.

(2) Sterling Heights taxable valuation is based on 62 percent for Utica Schools and 38 percent for Warren Consolidated Schools for the year ended June 30, 2007.

Source: Municipal Advisory Council of Michigan

Property Tax Rates Direct and Overlapping Governments Last Ten Fiscal Years

Overlapping Rates									Total Direct and Overlapping Rates by Resident's School District	
Utica Community School District (2)				Warren Consolidated School District (2)						
State Education Tax	Operating/Local	Supplemental	Debt	State Education Tax	Operating/Local	Supplemental	Sinking	Debt	Utica Community	Warren Consolidated
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	8.82660	0.00000	1.00000	29.42220	35.74880
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	47.42220	44.92220
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	8.77760	0.00000	1.00000	29.13110	35.40870
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	47.13110	44.63110
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	8.34560	0.00000	1.00000	28.83210	34.67770
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	46.83210	44.33210
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	7.81630	0.00000	1.00000	28.50950	33.82580
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	46.50950	44.00950
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	7.89710	0.00000	1.00000	28.57750	33.97460
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.00000	1.00000	46.57750	44.07750
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	7.46620	0.99640	2.50000	29.83160	37.29420
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.99640	2.50000	47.83160	47.82800
5.00000	0.00000	0.00000	3.50000	5.00000	0.00000	7.33420	0.99640	2.35000	28.70300	35.88360
5.00000	18.00000	0.00000	3.50000	5.00000	18.00000	0.00000	0.99640	2.35000	46.70300	46.54940
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	6.76620	0.99640	2.28000	29.60280	36.14540
6.00000	18.00000	0.00000	3.50000	6.00000	18.00000	0.00000	0.99640	2.28000	47.60280	47.37920
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	6.71660	0.99640	2.28000	29.50080	35.99380
6.00000	17.93160	0.00000	3.50000	6.00000	18.00000	0.00000	0.99640	2.28000	47.43240	47.27720
6.00000	0.00000	0.00000	3.50000	6.00000	0.00000	6.55300	0.99640	2.28000	29.59930	35.92870
6.00000	17.93160	0.00000	3.50000	6.00000	18.00000	0.00000	0.99640	2.28000	47.53090	47.37570

City of Sterling Heights, Michigan

	1998	1999	2000	2001	2002
State Equalized Value					
SEV Equivalent	\$ 3,433,720,050	\$ 3,770,255,255	\$ 4,095,828,980	\$ 4,384,642,350	\$ 4,786,398,900
IFT Exemption	<u>155,455,150</u>	<u>163,817,900</u>	<u>184,401,100</u>	<u>205,204,050</u>	<u>261,109,300</u>
Total SEV	<u>\$ 3,589,175,200</u>	<u>\$ 3,934,073,155</u>	<u>\$ 4,280,230,080</u>	<u>\$ 4,589,846,400</u>	<u>\$ 5,047,508,200</u>
Taxable Value					
By Class:					
Real property	\$ 2,671,587,302	\$ 2,826,351,500	\$ 2,974,814,700	\$ 3,145,249,054	\$ 3,356,956,900
Personal property	<u>790,037,000</u>	<u>874,346,800</u>	<u>949,326,300</u>	<u>979,571,300</u>	<u>1,086,927,400</u>
Total value	<u>\$ 3,461,624,302</u>	<u>\$ 3,700,698,300</u>	<u>\$ 3,924,141,000</u>	<u>\$ 4,124,820,354</u>	<u>\$ 4,443,884,300</u>
Total direct tax rate	<u>\$ 11.47000</u>	<u>\$ 11.22000</u>	<u>\$ 10.97000</u>	<u>\$ 10.72000</u>	<u>\$ 10.65000</u>
By Type:					
Residential	\$ 1,946,983,602	\$ 2,068,663,200	\$ 2,192,313,900	\$ 2,329,156,554	\$ 2,502,544,100
Commercial	387,318,800	404,666,300	420,041,700	446,957,000	465,723,900
Industrial	296,688,200	312,148,800	335,000,300	343,988,000	359,713,900
Personal property	519,723,400	587,584,200	607,982,900	594,310,700	593,683,800
IFT real and personal property	<u>310,910,300</u>	<u>327,635,800</u>	<u>368,802,200</u>	<u>410,408,100</u>	<u>522,218,600</u>
Total	3,461,624,302	3,700,698,300	3,924,141,000	4,124,820,354	4,443,884,300
Less exempt property	<u>(155,455,150)</u>	<u>(163,817,900)</u>	<u>(184,401,100)</u>	<u>(205,204,050)</u>	<u>(261,109,300)</u>
Total taxable value	<u>\$ 3,306,169,152</u>	<u>\$ 3,536,880,400</u>	<u>\$ 3,739,739,900</u>	<u>\$ 3,919,616,304</u>	<u>\$ 4,182,775,000</u>
Total taxable value as					
a % of SEV equivalent	96.29%	93.81%	91.31%	89.39%	87.39%
Total taxable value as					
a % of total value	95.51%	95.57%	95.30%	95.03%	94.12%

Source: City of Sterling Heights, Assessor's Office

**Assessed Taxable Values
(History of Property Values)
Last Ten Fiscal Years**

2003	2004	2005	2006	2007
\$ 5,272,934,560	\$ 5,553,761,050	\$ 5,754,101,500	\$ 5,997,740,400	\$ 6,230,684,225
<u>259,867,600</u>	<u>226,175,750</u>	<u>221,346,700</u>	<u>225,091,700</u>	<u>223,376,725</u>
<u>\$ 5,532,802,160</u>	<u>\$ 5,779,936,800</u>	<u>\$ 5,975,448,200</u>	<u>\$ 6,222,832,100</u>	<u>\$ 6,454,060,950</u>
\$ 3,587,248,700	\$ 3,764,758,000	\$ 3,970,808,500	\$ 4,195,815,400	\$ 4,451,151,600
<u>1,071,358,000</u>	<u>1,025,224,600</u>	<u>968,119,700</u>	<u>949,766,100</u>	<u>944,127,850</u>
<u>\$ 4,658,606,700</u>	<u>\$ 4,789,982,600</u>	<u>\$ 4,938,928,200</u>	<u>\$ 5,145,581,500</u>	<u>\$ 5,395,279,450</u>
<u>\$ 10.63000</u>	<u>\$ 10.62500</u>	<u>\$ 10.62500</u>	<u>\$ 10.62500</u>	<u>\$ 10.72500</u>
\$ 2,685,708,600	\$ 2,820,357,100	\$ 2,990,452,700	\$ 3,151,356,400	\$ 3,327,952,350
496,719,500	529,584,800	548,866,900	588,205,000	638,272,700
373,247,900	383,343,100	397,910,200	416,252,900	445,399,650
583,195,500	607,793,500	567,204,500	548,022,100	540,032,000
<u>519,735,200</u>	<u>448,904,100</u>	<u>434,493,900</u>	<u>441,745,100</u>	<u>443,622,750</u>
4,658,606,700	4,789,982,600	4,938,928,200	5,145,581,500	5,395,279,450
<u>(259,867,600)</u>	<u>(224,452,050)</u>	<u>(217,246,950)</u>	<u>(220,872,550)</u>	<u>(221,811,375)</u>
<u>\$ 4,398,739,100</u>	<u>\$ 4,565,530,550</u>	<u>\$ 4,721,681,250</u>	<u>\$ 4,924,708,950</u>	<u>\$ 5,173,468,075</u>
83.42%	82.21%	82.06%	82.11%	83.03%
94.42%	95.31%	95.60%	95.71%	95.89%

City of Sterling Heights, Michigan

Principal Property Taxpayers (Major Taxpayers) Current Year and Nine Years Ago

Company Name	Product/Service	Year Ended June 30, 2007			Year Ended June 30, 1998		
		Taxable Value	Rank	Percent of Total City Taxable Value	Taxable Value	Rank	Percent of Total City Taxable Value
DaimlerChrysler	Automotive assembly and stamping	\$ 275,309,675	1	5.32	\$ 217,435,150	2	6.58
Ford Motor Company	Automotive manufacturing and drive shafts	225,921,850	2	4.37	286,619,700	1	8.67
Detroit News Agency	Printing plant - Newspapers	41,244,025	3	0.80	21,765,800	5	0.66
DTE Energy	Public electric utility	39,525,300	4	0.76	40,519,500	3	1.23
Lakeside Associates	Retail shopping center	34,303,100	5	0.66	32,361,100	4	0.98
General Dynamics	Administrative engineering and design	30,218,500	6	0.58	19,072,500	6	0.58
Laurel/Shoal Creek	Office and apartment complex	17,352,550	7	0.34	13,826,500	10	0.42
Ledd's Development	Office and business complex	16,284,250	8	0.31	-		
Market Place Properties	Retail shopping center	16,195,150	9	0.31	-		
Forum at Gateways	Theatre complex	12,819,400	10	0.25	-		
Consumers Power	Public utility for gas	-		-	16,357,300	7	0.49
T.R.W.	Auto sub-component assembly	-		-	16,333,300	8	0.49
MNP Corporation	Nut, bolt, and wire manufacturer	-		-	14,073,750	9	0.43
	Ten largest taxpayers	709,173,800		13.70	678,364,600		20.53
	Other taxpayers	4,464,294,275			2,627,804,552		
	Total taxable value	\$ 5,173,468,075			\$ 3,306,169,152		

Source: City of Sterling Heights Assessor's Office

City of Sterling Heights, Michigan

Ratios of General Bonded Debt Outstanding Last Ten Fiscal Years

Fiscal Year Ended June 30	General Obligation Bonds	County Issued Bonds	Amounts Available in Debt Service Funds	Total	Percentage of Estimated Total Taxable Value of Property (1)	Population	Per Capita
1998	\$ 17,961,770	\$ 6,883,858	\$ (515,436)	\$ 24,330,192	0.7086	122,900	\$ 197.97
1999	17,510,000	7,392,862	(323,278)	24,579,584	0.6519	123,530	198.98
2000	18,090,000	6,528,423	(255,877)	24,362,546	0.5948	124,471	195.73
2001	14,680,000	10,485,984	(112,528)	25,053,456	0.5714	125,140	200.20
2002	12,180,000	11,319,602	(62,846)	23,436,756	0.4897	125,800	186.30
2003	9,125,000	10,403,220	(15,300)	19,512,920	0.3701	126,470	154.29
2004	33,745,000	9,936,539	(8,007)	43,673,532	0.7864	127,270	343.16
2005	31,735,000	9,060,000	(61,570)	40,733,430	0.7079	128,026	318.17
2006	29,705,000	8,230,000	(284,417)	37,650,583	0.6277	128,692	292.56
2007	21,590,000	7,325,000	(118,705)	28,796,295	0.4622	128,914	223.38

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See the schedule of assessed taxable value for property value data

City of Sterling Heights, Michigan

Ratios of Outstanding Debt by Type Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities				Total Primary Government	Percentage of Personal Income (1)	Population	Per Capita
	General Obligation Bonds	Michigan Transportation Bonds	Special Assessment Bonds	County- issued Bonds				
1998	\$ 17,961,770	\$ 14,450,000	\$ 1,490,000	\$ 6,883,858	\$ 40,785,628	N/A	122,900	\$ 331.86
1999	17,510,000	18,885,000	1,340,000	7,392,862	45,127,862	N/A	123,530	365.32
2000	18,090,000	21,960,000	1,175,000	6,528,423	47,753,423	1.54%	124,471	383.65
2001	14,680,000	20,635,000	975,000	10,485,984	46,775,984	1.50%	125,140	373.79
2002	12,180,000	19,175,000	775,000	11,319,602	43,449,602	1.38%	125,800	345.39
2003	9,125,000	18,995,000	575,000	10,403,220	39,098,220	1.24%	126,470	309.15
2004	33,745,000	15,910,000	350,000	9,936,539	59,941,539	1.89%	127,270	470.98
2005	31,735,000	19,735,000	125,000	9,060,000	60,655,000	1.91%	128,026	473.77
2006	29,705,000	17,690,000	-	8,230,000	55,625,000	1.74%	128,692	432.23
2007	21,590,000	20,610,000	-	7,325,000	49,525,000	1.54%	128,914	384.17

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See the schedule of demographic and economic statistics for personal income data

City of Sterling Heights, Michigan

Direct and Overlapping Governmental Activities Debt June 30, 2007

Direct Debt

General Obligation Bonds

05/01/97	Roads	\$	225,000	
04/21/98	Roads		375,000	
05/01/99	Roads		700,000	
06/14/04	Judgment Funding, LT		12,845,000	
04/27/05	Limited Tax		2,770,000	
04/01/07	Limited Tax		<u>3,250,000</u>	\$ 20,165,000

Building Authority Bonds

02/02/00	City Center Commons		325,000	
11/05/03	Judical Center Refunding, Series 2003		<u>1,100,000</u>	1,425,000

Michigan Transportation Fund Bonds

05/01/99	Bonds		3,300,000	
04/18/00	Bonds		200,000	
07/30/02	Refunding Bonds, Series 2002		1,820,000	
12/09/03	Refunding Bonds, Series 2003		2,325,000	
04/05/05	Refunding Bonds, Series 2005		3,215,000	
05/19/05	Bonds		5,100,000	
04/01/07	Bonds		<u>4,650,000</u>	20,610,000

Share of County-issued Drain Bonds

				<u>7,325,000</u>
	Total direct debt outstanding			49,525,000
Less:	MTF Bonds			<u>20,610,000</u>
	Net direct debt outstanding			28,915,000

Overlapping Debt

40.83%	Utica Community School District	223,980,000	91,451,034
42.95%	Warren Consolidated School District	145,124,000	62,330,758
16.30%	Macomb County at large	85,451,318	13,928,565
15.97%	Macomb Intermediate School District	2,000,000	<u>319,400</u>
	Total overlapping debt		<u>168,029,757</u>
	Net direct debt outstanding and overlapping debt		<u><u>\$ 196,944,757</u></u>

Source: Municipal Advisory Council of Michigan, Detroit, Michigan

City of Sterling Heights, Michigan

Legal Debt Margin June 30, 2007

Valuation for debt limit:

2006 State Equalized Value (2007 Fiscal Year)	\$ 6,007,307,500
Addback of Assessed Value Equivalent - 2006 SEV of Act 198 exemptions	<u>446,753,450</u>

Total valuation for debt limit \$ 6,454,060,950

Debt limit (10 percent of state equalized valuation and equivalent) (1) \$ 645,406,095

Debt applicable to limit:

Amount of total direct outstanding debt	\$ 49,525,000
Less Michigan Transportation Fund Bonds	<u>20,610,000</u>

Net debt applicable limit 28,915,000

Legal debt margin \$ 616,491,095

(1) Debt limit set forth in Section 4a, Act 279 of 1909 and Act 202, P.A. 1943, as amended by Act 42, P.A. 1960

City of Sterling Heights, Michigan

Legal Debt Margin Information Last Ten Fiscal Years

	Fiscal Year				
	1998	1999	2000	2001	2002
Debt limit	\$ 358,917,520	\$ 393,407,316	\$ 428,023,008	\$ 458,984,640	\$ 504,750,820
Total net debt applicable to limit	<u>(24,845,628)</u>	<u>(24,902,862)</u>	<u>(24,618,423)</u>	<u>(25,165,984)</u>	<u>(23,499,602)</u>
Legal debt margin	<u>\$ 334,071,892</u>	<u>\$ 368,504,454</u>	<u>\$ 403,404,585</u>	<u>\$ 433,818,656</u>	<u>\$ 481,251,218</u>
Total net debt applicable to the limit as a percentage of debt limit	6.92%	6.33%	5.75%	5.48%	4.66%

	Fiscal Year				
	2003	2004	2005	2006	2007
Debt limit	\$ 553,280,216	\$ 577,993,680	\$ 597,544,820	\$ 622,283,210	\$ 645,406,095
Total net debt applicable to limit	<u>(19,528,220)</u>	<u>(43,681,539)</u>	<u>(40,795,000)</u>	<u>(37,935,000)</u>	<u>(28,915,000)</u>
Legal debt margin	<u>\$ 533,751,996</u>	<u>\$ 534,312,141</u>	<u>\$ 556,749,820</u>	<u>\$ 584,348,210</u>	<u>\$ 616,491,095</u>
Total net debt applicable to the limit as a percentage of debt limit	3.53%	7.56%	6.83%	6.10%	4.48%

City of Sterling Heights, Michigan

Pledged Revenue Coverage Last Ten Fiscal Years

Fiscal Year Ended	Limited Tax Obligation Bonds					Coverage
	Collections	Debt Service				
		Principal	Interest	Total		
1998	\$ 807,437	\$ 545,000	\$ 260,663	\$ 805,663	1.002	
1999	833,700	625,000	206,950	831,950	1.002	
2000	838,136	620,000	216,173	836,173	1.002	
2001	1,069,510	710,000	357,540	1,067,540	1.002	
2002	1,058,238	725,000	331,535	1,056,535	1.002	
2003	683,173	375,000	306,723	681,723	1.002	
2004	668,476	305,000	288,102	593,102	1.127	
2005	640,723	415,000	226,639	641,639	0.999	
2006	652,798	475,000	177,366	652,366	1.001	
2007	681,050	485,000	170,614	655,614	1.039	

Fiscal Year Ended	Michigan Transportation Fund Bonds					
	Collections	Debt Service			Coverage	
		Principal	Interest	Total		
1998	\$ 3,033,392	\$ 1,298,110	\$ 846,096	\$ 2,144,206	1.415	
1999	3,037,893	1,311,770	855,830	2,167,600	1.402	
2000	3,198,450	1,315,000	960,470	2,275,470	1.406	
2001	3,049,816	1,525,000	1,100,805	2,625,805	1.162	
2002	3,175,854	1,660,000	1,031,928	2,691,928	1.180	
2003	3,397,164	1,758,227	1,060,828	2,819,055	1.205	
2004	3,655,236	1,855,000	837,354	2,692,354	1.358	
2005	3,530,329	1,885,000	636,159	2,521,159	1.400	
2006	3,488,938	2,045,000	677,163	2,722,163	1.282	
2007	3,450,943	1,730,000	626,665	2,356,665	1.464	

Fiscal Year Ended	Special Assessment Bonds					Coverage (1)
	Collections	Debt Service				
		Principal	Interest	Total		
1998	\$ 333,612	\$ 350,000	\$ 74,252	\$ 424,252	0.786	
1999	443,713	150,000	66,908	216,908	2.046	
2000	222,380	165,000	60,136	225,136	0.988	
2001	192,015	200,000	51,963	251,963	0.762	
2002	169,933	200,000	42,694	242,694	0.700	
2003	120,853	200,000	33,188	233,188	0.518	
2004	105,391	225,000	22,875	247,875	0.425	
2005	27,200	225,000	12,338	237,338	0.115	
2006	-	125,000	3,125	128,125	-	
2007	-	-	-	-	-	

(1) Customers may choose to make special assessment payments up front to avoid paying interest to the City, which creates uneven payment streams over the life of the assessment.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Demographic and Economic Statistics Last Eight Fiscal Years

Fiscal Year Ended June 30	Estimated Population	Median Age (2)	Education Age 25 or Older (2)		Per Capita Income (2)	Income (in thousands)	Number of Households (3)	Median Household Income (in 1999 dollars) (3)	Unemployment Rate (4)
			High School Graduate or Higher	Bachelor's Degree or Higher					
2000	124,471 (2)	37	84.0%	23.0%	\$ 24,958	\$ 3,106,547	45,594	\$ 62,274	2.5%
2001	125,140 (1)	N/A	N/A	N/A	N/A	3,123,244	46,072	62,274	4.1%
2002	125,800 (1)	N/A	N/A	N/A	N/A	3,139,716	48,775	62,274	4.8%
2003	126,470 (1)	N/A	N/A	N/A	N/A	3,156,438	48,990	62,274	5.3%
2004	127,270 (1)	N/A	N/A	N/A	N/A	3,176,405	49,260	62,274	5.4%
2005	128,026 (1)	N/A	N/A	N/A	N/A	3,195,273	49,405	62,274	5.6%
2006	128,692 (1)	N/A	N/A	N/A	N/A	3,211,895	49,871	62,274	6.3%
2007	128,914 (1)	N/A	N/A	N/A	N/A	3,217,436	50,761	62,274	7.3%

Sources:

- (1) City of Sterling Heights
- (2) United States Census Bureau - 2000 Census (last reported)
- (3) Southeast Michigan Council of Governments (SEMCOG)
- (4) Michigan Department of Labor and Economic Growth

City of Sterling Heights, Michigan

Miscellaneous Demographics

Population			Labor Characteristics	
2000 U.S. Census	124,471		By Occupation:	Number of Employees
1990 U.S. Census	117,810		Management, professional, and related	22,844
1980 U.S. Census	108,999		Service	7,889
			Sales and office	19,213
			Farming, forestry, and fishing	51
			Construction, extraction, and maintenance	4,927
			Production, transportation, and material moving	9,416
			Total	64,340
Income Characteristics			By Industry:	
Household Income	Number of Households		Agriculture, forestry, fishing, hunting, and mining	53
Less than \$10,000	2,157		Construction	3,226
\$10,000 - \$14,999	1,795		Manufacturing	16,639
\$15,000 - \$24,999	3,749		Wholesale trade	2,471
\$25,000 - \$34,999	4,473		Retail trade	9,105
\$35,000 - \$49,999	6,497		Transportation, warehousing, and utilities	1,583
\$50,000 - \$74,999	10,773		Information	1,475
\$75,000 - \$99,999	8,087		Finance, insurance, real estate, rental, and leasing	4,091
\$100,000 - \$149,999	6,977		Professional, scientific, management, administrative, and waste management services	6,774
\$150,000 or more	1,873		Educational, health, and social services	9,651
			Arts, entertainment, recreation, accomodation, and food services	4,777
			Other professional and related services	2,372
			Public administration	2,123
			Total	64,340
Residential Characteristics			Educational Characteristics	
Single Family	75.21%		Years of School Completed	Persons 25 and Over
Multi Family	21.18%		Less than 9th grade	6.40%
Mobile Homes	3.61%		9th to 12th grade, no diploma	9.60%
			High school graduate	29.20%
			Some college, no degree	23.60%
			Associate's degree	8.20%
			Bachelor's degree	15.70%
			Graduate or professional degree	7.30%
Age Statistics				
Years	1990	2000		
Under 5	6.50%	6.20%		
5 to 19	19.40%	20.30%		
20 to 24	11.20%	6.10%		
25 to 44	33.60%	30.40%		
45 to 64	20.10%	25.20%		
Over 64	9.20%	11.80%		

Source: 2000 United States Census

City of Sterling Heights, Michigan

Principal Employers (Major Employers) Last Fiscal Year and Nine Years Ago

Company Name	Product/Service	Year Ended June 30, 2007			Year Ended June 30, 1998		
		Employees	Rank	Total City Employment	Employees	Rank	Total City Employment
							(1)
DaimlerChrysler AG	Automotive assembly and stamping	6,875	1	12.64%	6,875	1	
Utica Community Schools	Education	4,150	2	7.63%	4,150	3	
Lakeside Associates	Retail shopping center	*2,500	3	0.00%	2,500	4	
Warren Consolidated Schools	Education	2,200	4	4.05%	2,200	5	
General Dynamics	Defense-related manufacturing	1,425	5	2.62%	1,425	6	
Ford Motor Company	Automotive axles and chassis components **	1,250	6	2.30%	6,500	2	
Detroit News	Printing plant - Newspapers	1,200	7	2.21%	730	8	
MNP	Nut, bolt, and wire manufacturer	580	8	1.07%	580	11	
Cadillac Products, Inc.	Plastic bags, sheets, paper	750	9	1.38%	750	7	
City of Sterling Heights	Local government	637	10	1.17%	623	10	
Collins & Aikman	Automotive interior	580	11	1.07%	-		
Key Safety Systems, Inc.	Safety systems	560	12	1.03%	560	13	
U.S. Farathane Corporation	Paints and finishes	550	13	1.01%	-		
Miliken Millwork	Wooden, stainless steel doors and stairs	500	14	0.92%	-		
Mayco Plastics	Plastic injection molding	400	15	0.74%	650	9	
T.R.W.	Auto sub-component assembly	-			-		
		-			570	12	
Chivas Products Ltd.	Moldings	-			500	14	
Modular Plastics	Plastic molds	-			330	15	
	Fifteen largest employers	21,657		47.67%	28,943		
	Other employers	32,727		60.18%			
	Total employment	54,384					

* Approximate number of employees, including seasonal help, is 4,000.

** During the year, Ford Motor Company reacquired ACH. As a result, total combined employees at June 30, 2007 are unknown.

(1) Information to determine percentage of total employment for ten years prior is not available prior to June 30, 2005.

Source: City of Sterling Heights, Chamber of Commerce and Michigan Manufacturing Directory, 2007 Edition

City of Sterling Heights, Michigan

Operating Indicators by Function Last Ten Fiscal Years

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Government										
Election Data										
Registered voters	81,136	84,437	77,508	77,134	79,426	79,100	79,221	83,461	83,910	83,639
Voters at polls	16,862	30,875	11,604	42,229	9,285	30,309	10,445	45,608	7,654	34,405
Absentee ballots	7,772	8,240	6,639	10,593	6,981	8,908	7,113	14,801	7,605	11,904
Percent voting	30.36%	46.32%	23.54%	68.48%	20.48%	49.58%	22.16%	72.38%	18.18%	55.37%
41A District Court										
Court Cases										
Civil	1,469	1,454	1,526	1,754	2,000	2,300	2,508	2,709	2,862	3,239
Criminal	7,859	8,338	8,488	6,651	5,827	5,920	4,782	3,994	4,211	4,533
Landlord and tenant	1,602	1,705	1,713	1,642	1,930	2,200	2,285	2,203	2,226	2,433
Small claims	745	596	605	639	657	612	610	513	488	432
Traffic	32,557	33,534	34,571	25,405	20,859	25,044	27,282	25,338	24,256	27,143
Public Safety										
Police Protection										
Adult arrests	3,485	3,585	3,836	3,452	3,198	2,988	2,707	2,406	2,560	3,326
Civil infractions	27,832	26,691	27,087	21,265	14,303	18,450	18,605	23,627	23,819	26,582
Group A offenses (2)	9,095	7,361	7,823	7,379	6,873	6,897	6,260	6,474	7,926	7,873
Group B offenses (3)	3,259	2,753	3,137	3,129	2,808	2,424	3,623	4,170	4,609	4,491
Injury accidents	906	882	836	804	747	766	884	862	810	806
Juvenile arrests	393	338	349	299	318	225	246	183	239	251
OUIL arrests	441	634	626	593	541	405	412	361	375	328
Parking violations	2,221	1,774	1,816	1,918	1,616	2,293	1,696	1,713	1,730	2,016
Property damage	3,251	3,042	3,282	3,476	3,261	3,317	3,637	3,669	3,663	3,415
Private property damage	1,598	1,646	1,663	1,673	1,546	1,419	1,426	1,439	1,304	1,322
Total traffic violations	38,283	35,205	36,301	29,389	24,543	27,012	24,208	26,972	25,379	29,166
Fire Protection										
Emergency alarms answered	7,170	8,080	7,820	7,747	8,425	5,966	9,215	9,292	9,573	10,261
Fire inspections conducted	4,154	4,537	4,482	4,202	4,139	3,871	4,427	3,832	4,204	4,624
Inspection violations issued	815	2,431	4,071	3,890	3,239	3,225	4,451	3,697	6,020	10,292
Medical emergencies	4,583	5,568	5,052	5,191	5,517	5,888	6,551	6,719	6,927	7,493
Training hours completed	37,081	37,982	35,016	33,798	36,491	32,839	34,583	35,809	34,124	33,538
Recreation and Culture										
Parks and Recreation										
Adult athletics attendance	24,900	14,115	12,675	18,810	19,383	14,150	13,980	15,825	19,480	18,782
Instructional swim attendance	8,500	9,130	9,030	8,390	8,281	9,025	9,640	9,592	8,896	9,386
Instructional rec. attendance	24,000	27,090	27,230	26,840	26,620	24,330	24,285	24,970	28,070	26,567
Nature program attendance	24,625	23,450	22,465	22,750	15,460	27,290	28,350	29,362	22,748	24,582
Senior program attendance	74,520	89,230	86,530	89,990	111,120	121,990	126,280	111,020	111,610	103,528
Special event attendance	72,000	54,500	55,710	55,890	68,530	68,480	68,500	71,930	72,725	73,000
Special recreation program attendance	12,560	13,860	13,820	13,880	15,585	15,700	15,870	15,895	16,870	14,878
Summer playground attendance	23,000	21,580	18,775	21,250	21,097	19,120	15,600	11,646	9,992	11,025
Youth athletics attendance	53,000	55,000	66,840	45,930	45,064	56,035	56,080	53,325	49,480	53,978
Library										
Book Van deliveries	10,181	10,771	9,125	8,098	9,126	9,759	12,623	12,844	12,820	11,242
Community meeting room reservations	N/A	N/A	N/A	N/A	N/A	N/A	295	150	299	341
In-house materials usage	N/A	N/A	N/A	N/A	N/A	190,771	159,897	139,897	140,033	144,698
Interlibrary loan requests	23,212	23,448	17,869	17,995	45,832	86,855	88,657	99,078	109,995	120,393
Interlibrary loans - Lent	N/A	N/A	N/A	N/A	N/A	70,782	75,931	89,405	100,260	109,814
Items circulated	662,773	635,697	540,720	447,240	690,262	687,070	662,579	641,730	648,967	635,425
Library visits	300,173	283,793	219,708	193,505	296,249	309,531	371,398	388,706	417,601	420,716
Online computer uses	222,750	248,273	211,267	170,452	187,950	296,414	357,869	441,111	456,752	492,979
Program attendance	7,734	13,659	11,045	14,687	24,004	23,046	22,034	22,780	21,275	25,470
Reference transactions	127,555	111,985	102,602	95,289	135,514	137,941	132,104	141,056	133,617	132,557
Registered borrowers	56,590	56,969	52,616	53,680	53,822	53,435	53,476	57,050	50,390	50,599

City of Sterling Heights, Michigan

Operating Indicators by Function (Continued) Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006 (4)	2007
Water and Sewer Services										
Customers:										
Residential	32,153	32,512	33,048	33,495	34,049	34,302	34,529	34,535	34,850	35,021
Commercial/Industrial	3,000	3,284	3,266	3,367	3,534	3,582	3,741	4,185	4,272	4,477
Water (in thousand cubic feet):										
Purchased from Detroit	859,619	888,703	865,058	847,075	843,530	885,283	828,398	867,931	803,969	775,817
Sold to residents	825,387	923,840	887,265	800,654	845,667	881,780	815,645	811,252	852,661	789,033
Rates (per thousand):										
1,000 CU. FT.	\$ 17.03	\$ 17.54	\$ 18.07	\$ 18.94	\$ 20.72	\$ 22.77	\$ 22.72	\$ 25.42	\$ 27.13	\$ 28.64
Next 2,000 CU.FT.	15.69	16.16	16.64	17.44	19.08	21.28	(1)	(1)	27.13	28.64
Over 3,000 CU.FT.	14.41	15.12	15.69	16.45	18.01	20.57	(1)	(1)	27.96	29.50
Sewer only - Per billing	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	25.00

(1) During July 1, 2003 - June 30, 2005, the City used a single-tier rate structure.

(2) Aggravated assault, arson, burglary, criminal sexual conduct and murder, larceny, motor vehicle theft, robbery, etc.

(3) Assault, disorderly conduct, family trouble, negligent homicide, obstructing justice, etc.

(4) Effective July 1, 2005, the City implemented a two-tier rate structure.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Capital Asset Statistics by Function Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Government										
Buildings										
City Center Commons	1	1	1	1	1	1	1	1	1	1
41A District Court	1	1	1	1	1	1	1	1	1	1
Public Safety										
Police Protection										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles - Marked	44	45	45	48	48	48	48	49	49	49
Vehicles - Unmarked	68	68	68	68	68	68	68	68	80	82
Fire Protection										
Stations	5	5	5	5	5	5	5	5	5	5
Vehicles - Extinguishment	10	10	10	11	12	13	14	14	14	15
Public Works										
Streets and Sidewalks										
Miles of City:										
Primary streets	58	58	59	60	60	60	60	60	60	60
Secondary streets	279	280	282	281	282	285	285	286	287	289
Sidewalks	527	529	532	535	537	565	565	566	605	607
Bridges	11	11	11	11	11	11	11	11	11	11
Buildings	2	2	2	2	2	2	2	2	2	2
Street lights	2,168	2,290	2,290	2,474	2,490	2,495	2,475	2,472	2,508	2,513
Vehicles - Snow plows	19	19	20	21	21	21	21	21	20	21
Water and Sewer Services										
Fire hydrants	5,720	5,901	6,033	6,488	6,597	6,633	6,796	6,932	7,015	7,050
Miles of water mains	499	518	525	535	544	554	558	563	569	570
Miles of sanitary sewers	387	401	406	412	415	415	422	424	428	429
Recreation and Culture										
Parks and Recreation										
Acres	800	800	800	810	811	820	820	820	820	820
Developed parks	25	25	25	26	27	28	28	28	28	28
Buildings	3	3	3	3	3	3	3	3	3	3
Library										
Book collections	189,596	182,015	183,167	215,840	191,481	197,472	186,992	189,822	190,791	188,365
Other collections (1)	19,666	20,528	23,198	24,786	25,442	28,250	24,622	23,937	23,776	35,619
Buildings	1	1	1	1	1	1	1	1	1	1
Vehicles - Library van	1	1	1	1	1	1	1	1	1	1

(1) Includes art prints, audio/video cassettes, compact discs, posters, puppets, software discs, etc.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Building Permits Last Ten Fiscal Years at Market Value

Fiscal Year Ended June 30	Residential						Total Residential	
	New Construction			Additions/Improvements				
	Number	Value		Number	Value			
1998	613	\$	70,925,657	1,229	\$	5,018,127	\$	75,943,784
1999	450		55,025,833	1,499		5,170,833		60,196,666
2000	304		38,156,806	1,864		6,261,197		44,418,003
2001	414		63,789,140	2,266		9,055,033		72,844,173
2002	513		51,306,550	1,766		2,737,615		54,044,165
2003	763		76,609,958	1,078		3,017,213		79,627,171
2004	631		59,756,113	787		2,218,100		61,974,213
2005	546		54,325,044	876		1,830,299		56,155,343
2006	269		48,957,415	734		1,601,036		50,558,451
2007	152		25,895,984	598		2,454,254		28,350,238

Fiscal Year Ended June 30	Commercial						Total Commercial	
	New Construction			Additions/Improvements				
	Number	Value		Number	Value			
1998	43	\$	28,833,159	255	\$	21,239,729	\$	50,072,888
1999	36		39,098,478	277		22,097,699		61,196,177
2000	68		31,976,338	237		28,031,281		60,007,619
2001	96		40,493,780	156		20,199,408		60,693,188
2002	42		25,736,795	295		16,143,812		41,880,607
2003	19		17,228,169	265		18,095,804		35,323,973
2004	29		28,123,162	272		59,264,545		87,387,707
2005	31		34,143,253	271		26,257,489		60,400,742
2006	24		25,096,450	302		26,567,543		51,663,993
2007	24		44,813,309	254		40,418,973		85,232,282

Source: City of Sterling Heights Office of Building Services

City of Sterling Heights, Michigan

Full-time Equivalent City Government Employees by Function Last Ten Fiscal Years

	Full-time and Part-time Employees as of June 30									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Function										
General government	93	95	96	99	99	99	97	95	95	94
41A District Court	38	37	37	37	37	37	36	38	38	40
Public safety:										
Police	254	265	265	266	266	263	259	258	259	259
Fire	107	107	107	107	114	111	107	107	107	108
Public Works:										
City development	46	49	50	50	51	51	50	50	50	32
Public works	43	55	56	56	57	45	43	43	43	43
Street services	23	23	23	23	23	23	23	23	23	23
Engineering (I)	-	-	-	-	-	-	-	-	-	19
Recreation and culture:										
Parks and recreation	16	16	16	16	16	16	16	16	16	16
Library	42	42	42	42	42	42	41	41	41	41
Water and sewer	42	41	41	41	41	41	41	41	41	41
Total	704	730	733	737	746	728	713	712	713	716

(I) Prior to 2007 engineering employees were included in City Development.

Source: City of Sterling Heights

Continuing Disclosure

City of Sterling Heights, Michigan

State-shared Revenues Last Ten Fiscal Years

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Modified Accrual</u> <u>Basis of Accounting</u>	<u>Accrual Basis of</u> <u>Accounting</u>
1998	\$ 11,274,771	N/A
1999	12,040,644	N/A
2000	12,489,726	N/A
2001	13,329,919	N/A
2002	13,315,069	\$ 13,315,069
2003	12,253,193	13,114,050
2004	11,405,282	11,249,778
2005	11,072,350	11,127,156
2006	10,999,284	11,003,347
2007	10,861,805	10,675,667

Gas and Weight Taxes Last Ten Fiscal Years

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Type of Street</u>		<u>Total</u> <u>Gas and Weight Tax</u> <u>(Act 51) Receipts</u>
	<u>Major Roads</u>	<u>Local Roads</u>	
1998	\$ 4,206,150	\$ 1,860,634	\$ 6,066,784
1999	4,408,865	1,666,920	6,075,785
2000	4,642,820	1,754,080	6,396,900
2001	4,647,631	1,452,001	6,099,632
2002	4,836,746	1,514,962	6,351,708
2003	4,937,259	1,857,068	6,794,327
2004	5,308,588	2,001,883	7,310,471
2005	5,124,980	1,935,678	7,060,658
2006	5,063,169	1,914,706	6,977,875
2007	5,006,831	1,895,054	6,901,885

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Labor Agreements June 30, 2007

Name	Contract Expiration Date	Actual Number of Employees Covered
Union Employees		
Technical/Office Employees Michigan Association of Public Employees (MAPE)	6/30/2007	114
Police Clerical Employees Michigan Association of Police (MAP)	6/30/2006	28
Emergency Dispatchers Police Officers Association of Michigan (POAM)	6/30/2007	23
Department of Public Works Field Employees Teamsters, Local 214	6/30/2007	70
Department of Public Works Supervisors AFSCME, Local 1917, Council 25	6/30/2007	9
Firefighters International Association of Firefighters, Local 1557	6/30/2007	101
Police Officers Michigan Association of Police (MAP)	6/30/2011	131
Police Command Officers Sterling Heights Police Command Officers Association	6/30/2007	38
Court Clerical AFSCME, Local 1884, Council 25	6/30/2011	23
Professional and Technical Employees United Auto Workers, Unit 40, Local 412	6/30/2008	58
Supervisory Employees United Auto Workers, Unit 41, Local 412	6/30/2012	23
Executive Employees Michigan Association of Public Employees (MAPE)	6/30/2008	5
Nonunion Employees		
City Manager	N/A	1
41A District Court Judges	N/A	3
41A District Court Administration	N/A	10

Source: City of Sterling Heights

City of Sterling Heights, Michigan

**Federal Awards
Supplemental Information
June 30, 2007**

City of Sterling Heights, Michigan

Contents

Independent Auditor's Report	I
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	4-5
Schedule of Expenditures of Federal Awards	6-11
Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards	12
Notes to Schedule of Expenditures of Federal Awards	13
Schedule of Findings and Questioned Costs	14-16

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sterling Heights, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City of Sterling Heights, Michigan's basic financial statements, and have issued our report thereon dated September 21, 2007. Those basic financial statements are the responsibility of the management of the City of Sterling Heights, Michigan. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sterling Heights, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 21, 2007

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sterling Heights, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal controls. We consider the control deficiency described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency in internal control over financial reporting.

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sterling Heights, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Sterling Heights, Michigan's response to the significant deficiency identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, federal awarding agencies, and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 21, 2007

Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

Compliance

We have audited the compliance of the City of Sterling Heights, Michigan (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2007. The major federal program of the City of Sterling Heights, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Sterling Heights, Michigan's management. Our responsibility is to express an opinion on the City of Sterling Heights, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Sterling Heights, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Sterling Heights, Michigan's compliance with those requirements.

In our opinion, the City of Sterling Heights, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

To the Honorable Mayor and
Members of the City Council
City of Sterling Heights, Michigan

Internal Control Over Compliance

The management of the City of Sterling Heights, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Sterling Heights, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council, federal awarding agencies, and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 21, 2007

City of Sterling Heights, Michigan

Federal Agency/Pass-through Agency/ Program Title	CFDA Number	Pass-through Entity Project/Grant Number
U.S. Department of Housing and Urban Development - Community Development Block Grant - Program year: 2005-2006 B-05-MC-260014 2006-2007 B-05-MC-260014	14.218 *	N/A N/A
Total U.S. Department of Housing and Urban Development		
U.S. Department of Homeland Security f/k/a Federal Emergency Management Agency: Passed through the Michigan Department of State Police: Emergency Management Division Performance Grant - Program year: 10/01/05-9/30/06 10/01/06-9/30/07	97.042	N/A N/A
Total Emergency Management Performance Grant		
2003 State Homeland Security Grant Program - Part II RRTN Equipment Grant	97.004	N/A
2004 State Homeland Security Grant Program: RRTN Equipment Grant RRTN Equipment Grant Interoperable Communications Equipment - 04/01/06-8/31/06	97.004	N/A N/A N/A
Total 2004 State Homeland Security Grant Program		
Total passed through the Michigan Department of State Police		
Passed through Macomb County, Michigan - Emergency Management and Communication: 2005 State Homeland Security Grant - Program year: 10/01/04-1/31/07 - LETPP 10/01/04-1/31/07 - HSGP	97.067	N/A N/A
Total 2005 State Homeland Security Grant Program		
2006 State Homeland Security Grant - Urban Area Security Initiative: Equipment Training C.E.R.T. Training	97.067	N/A N/A N/A
Total 2006 State Homeland Security Grant Program		
Total passed through Macomb County, Michigan		
Total U.S. Department of Homeland Security		

* Major program

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007**

<u>Award Amount</u>	<u>Federal Expenditures</u>
\$ 886,229	\$ 682,001
<u>729,570</u>	<u>552,912</u>
1,615,799	1,234,913
35,824	853
<u>32,382</u>	<u>24,286</u>
68,206	25,139
250,817	250,817
65,563	65,563
66,394	66,394
<u>22,000</u>	<u>22,000</u>
<u>153,957</u>	<u>153,957</u>
472,980	429,913
132,654	47,886
<u>361,508</u>	<u>305,403</u>
494,162	353,289
99,180	99,180
7,650	4,796
<u>3,400</u>	<u>1,657</u>
<u>110,230</u>	<u>105,633</u>
<u>604,392</u>	<u>458,922</u>
1,077,372	888,835

City of Sterling Heights, Michigan

Federal Agency/Pass-through Agency/ Program Title	CFDA Number	Pass-through Entity Project/Grant Number
U.S. Immigration and Customs Enforcement - Balkan Organized Crime Task Force:	97.000	
10/01/2005 - 09/30/2006		N/A
10/01/2006 - 09/30/2007		N/A
Total U.S. Customs and Immigration Enforcement		
U.S. Department of Justice, Office of Justice Programs:		
Bulletproof Vest Partnership Program 2004 Regular Fund	16.607	N/A
Passed through Macomb County Department of Emergency Management - Edward Byrne Memorial Justice Assistance - Program year 2006	16.738	2006-DJ-BX-0095
Passed through U.S. Marshalls Service Task Force, City of Redford - High-intensity Drug Trafficking Area - Detroit Fugitive Apprehension - Apprehension Task Force (DFAT):	16.000	
01/01/06-12/31/06		N/A
01/01/07-12/31/07		N/A
Total passed through U.S. Marshalls Service Task Force		
Passed through the Drug Enforcement Agency:	16.000	
Federal Asset Forfeiture Program		N/A
State and Local Task Force		N/A
Total passed through the Drug Enforcement Agency		
Total U.S. Department of Justice		
Office of National Drug Control Policy - Passed through the Oakland County Narcotic Enforcement Team - High-intensity Drug Trafficking Area - Program year:	07.000	
01/01/06 - 12/31/06		N/A
01/01/06 - 12/31/06 Supplemental		N/A
01/01/07 - 12/31/07		N/A
Total Office of National Drug Control Policy		
U.S. Department of Transportation:		
National Highway Traffic Safety Administration - Passed through Macomb County, Michigan - State and Community Highway Safety - 2006/2007 Seat Belt Enforcement	20.600	N/A

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2007

<u>Award Amount</u>	<u>Federal Expenditures</u>
\$ 15,000	\$ 3,419
<u>15,000</u>	<u>937</u>
30,000	4,356
626	626
18,479	18,479
9,500	4,420
<u>9,500</u>	<u>3,748</u>
19,000	8,168
169,756	169,756
<u>15,573</u>	<u>15,573</u>
<u>185,329</u>	<u>185,329</u>
223,434	212,602
7,500	3,843
556	556
<u>7,500</u>	<u>7,500</u>
15,556	11,899
8,682	8,682

City of Sterling Heights, Michigan

Federal Agency/Pass-through Agency/ Program Title	CFDA Number	Pass-through Entity Project/Grant Number
U.S. Department of Transportation (Continued):		
Alcohol Traffic Safety and Drunk Driving Prevention Incentive:	20.601	
2005/2006 Alcohol Enforcement		N/A
2005/2006 Highway Safety Project		N/A
Total Alcohol Traffic Safety and Drunk Driving Prevention Incentive		
Total U.S. Department of Transportation		
U.S. Department of Agriculture - Passed through the State of Michigan Department of Natural Resources - Emerald Ash Borer Tree Planting Grant - Program year - 2006 - 05/10/06-05/31/07	10.664	EAB 05-31
Federal Highway Administration, Department of Transportation - Passed through the State of Michigan, Department of Transportation - 2003 Transportation Enhancement Program	20.205	N/A
Centers for Disease Control, Department of Health and Human Services - Passed through the Macomb County, Michigan Health Department - Cities Readiness Initiative:	93.283	
2004-2005 Program year		N/A
2005-2006 Program year		N/A
2006-2007 CDI Municipality Stipend		N/A
Total Centers for Disease Control		
Total federal awards		

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2007

<u>Award Amount</u>	<u>Federal Expenditures</u>
\$ 5,237	\$ 2,659
<u>10,300</u>	<u>10,300</u>
15,537	12,959
24,219	21,641
20,000	19,915
142,995	93,504
21,116	21,116
26,631	26,627
<u>20,923</u>	<u>20,923</u>
<u>68,670</u>	<u>68,666</u>
<u>\$3,218,045</u>	<u>\$2,556,331</u>

City of Sterling Heights, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 2,755,145
Revenues collected in excess of expended	(212,882)
Expenditures from prior year received in current year	11,900
Other differences	<u>2,168</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 2,556,331</u></u>

City of Sterling Heights, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Sterling Heights, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Federal expenditures under the U.S. Department of Housing and Urban Development - Community Development Block Grant include expenditures of program income. Therefore, the amount expended may be greater than the award amount for the applicable program year.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	\$ 45,405

City of Sterling Heights, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

City of Sterling Heights, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings

Reference Number	Findings
2007-1	<p>Finding Type - Significant deficiency</p> <p>Definition of Significant Deficiency - This is a new communication for fiscal year 2007 audits. As defined on page 2 of this report, auditors now communicate any internal control deficiency that represents more than a remote likelihood that a misstatement could occur that is more than inconsequential.</p> <p>Criteria - Management's goal is to design a control system which will detect significant malfunctions in financial software products.</p> <p>Condition - Due to a glitch in an externally developed financial software program, the general ledger balance related to delinquent water and sewer customer receivables was understated by approximately \$443,000 as of June 30, 2006. The detail of individual customer accounts was not impacted by this error. This error was detected by management during the current year and the related general ledger balance is now recorded properly.</p> <p>Cause - A malfunction in the City's externally purchased financial software reported an incorrect delinquent water and sewer receivable balance as of June 30, 2006. An analysis of this financial data did not detect the error until the current year.</p> <p>Effect - As a result, the June 30, 2006 reported balance of delinquent customer water and sewer balances was understated by approximately \$443,000, net of related interest and penalties. Water and sewer revenue reported for the year ended June 30, 2007 included an adjustment to correct this error.</p>

City of Sterling Heights, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2007-I (Cont'd)	<p>Views of Responsible Officials - The software malfunction noted above occurred following a major upgrade in the financial software package by the external vendor. The malfunction centered on an incorrect posting to the general ledger in May 2006 by one of the utility billing applications, which is only used twice a year, resulting in delinquent receivables and revenues being immaterially understated at June 30, 2006. At June 30, 2006, neither of these understatements was detected as part of the analytic review of the financial statements and account analysis, as the amounts were not significant enough to raise suspicion that balances were incorrectly stated. It should be noted that at all times cash receipts, customer account balances, and current receivables were correctly recorded in both the general ledger and the subsidiary ledger maintained by the software.</p> <p>During the current fiscal year, City staff discovered the malfunction during routine financial statement review and account analysis following the second running of this application. As a result, the problem was immediately identified and communicated to the software vendor. Jointly, the vendor and City staff developed an acceptable solution to the problem that allowed for the correction of all previous posting errors and assured all future postings would be correctly posted to the general ledger.</p> <p>The City strives to maintain a close working relationship with all external vendors to assure that potential problems are identified and resolved in a timely manner. We will continue to test all identified changes in software following any upgrade and we will increase the level of account balance analysis to assure that all aspect of automatic general ledger postings are operating correctly.</p>

Section III - Federal Program Audit Findings

None

September 21, 2007

Honorable Mayor and Members
of the City Council
City of Sterling Heights
40555 Utica Road
P.O. Box 8009
Sterling Heights, MI 48311-8009

Dear Mayor and Council Members:

We have recently completed our audit of the governmental activities, business-type activities, the aggregate discretely presented component unit information, each major fund, and the aggregate remaining fund information of the City of Sterling Heights for the year ended June 30, 2007. We have issued an "unqualified" audit opinion letter on the City's Comprehensive Annual Financial Report (CAFR). In addition to our audit report, we offer the following comments and recommendations for your consideration:

Overview of the City's Financial Condition

In the current year, General Fund revenues outpaced expenditures, adding approximately \$668,000 to ending fund balance. As of June 30, 2007, the cumulative fund balance of the General Fund was approximately \$15.7 million. Unreserved and undesignated fund balance is approximately 15 percent of General Fund expenditures, which is well within the range expected by bonding agencies.

The City has continued its emphasis on funding for future retiree medical costs; currently, the City is contributing 21.9 percent of payroll which is the rate recommended in the City's 2004 actuarial study. We commend the City on its ability to meet the actuarial determined funding levels prior to the implementation dates required by the Governmental Accounting Standards Board.

For the year ended June 30, 2007, the City's total General Fund expenditures were \$82.78 million, as compared to budgeted General Fund expenditures of \$82.82 million. This small budget to actual variance continues to serve as a strong indicator of the City's ability to manage its finances. In addition, the City completed significant infrastructure related projects totaling approximately \$11.1 million in the current year. We commend the City on its continued emphasis on developing and maintaining its infrastructure.

We would like to recognize the involvement of the City's financial services office in the audit process - specifically, their ability to prepare for the audit in such a tight timeframe. In order to accomplish audit deadlines, we realize the significant time commitment needed by the financial services team in the days and weeks leading up to the audit and appreciate their dedication to this important process.

Retiree Health Care Benefits

In 2004, the Governmental Accounting Standards Board issued Statement No. 43 (GASB No. 43), *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, and Statement No. 45 (GASB No. 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB No. 43 and No. 45 establish accounting standards for financial reporting of postemployment benefits other than pensions. These benefits include but are not limited to health care, life insurance, and dental insurance for retirees. The City of Sterling Heights will implement GASB No. 43 with the fiscal 2007/2008 financial statements and GASB No. 45 with the fiscal 2008/2009 financial statements in compliance with the guidance provided by the Governmental Accounting Standards Board.

New Auditing Standards

Major and comprehensive changes were recently made to auditing rules that will impact the City's audits beginning next year. These new auditing standards require significant changes in how audits are done and how the results of the auditor's work are communicated to clients, bringing auditing rules of governmental units into closer alignment with the standards imposed on audits of public companies under Sarbanes-Oxley.

These new rules, which are known collectively as the Risk Assessment Standards, require auditors to:

- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions, and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements, and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing, and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, auditors will need to make more detailed and specific requests for information from clients, particularly about processes and controls, and clients will need to do more work to be well prepared for their audits. The new rules also will require increased audit testing and more thorough auditing procedures, and will increase the amount of related documentation that auditors must prepare and maintain.

Plante & Moran, PLLC began analyzing these new standards and incorporating the necessary changes into our audit process and tools more than a year ago. It is clear that the new rules will require us to perform more audit procedures than we have in the past. Our firm has invested heavily to implement our new audit methodology and train our staff on these changes and will continue to do so over the next several months. Our goal is to have our staff trained and working with our clients to prepare for the transition to these new rules well in advance of the required implementation date.

As we move forward, we will be communicating more specifically about how these matters will affect the City's next financial statement audit. In addition, we plan to begin to work with the City's staff during the upcoming year in a number of areas, including review and documentation of internal accounting procedures and controls, to ensure a smooth transition to these new standards.

The primary objective of these new rules is to strengthen and enhance the independent audit of financial statements, including more thorough evaluation and information about the City's internal accounting and financial reporting processes and controls. We believe that these new rules, and the additional communications the board will receive from us about the results of our audit work, will enhance the value received from the financial statement audit

Report on Internal Controls

Beginning with this year's audit, national auditing standards now call for auditors to communicate matters to the governing body that may be useful to you in your oversight of the City's financial management. Specifically, they require us to report internal control issues to you that may be relatively minor, in order to allow you to evaluate their significance and make any changes you may deem appropriate. The purpose of these new standards is to allow you an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. As a result of these new standards, our observations and comments regarding the City's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the accompanying *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

As noted in the report indicated above, during the course of our audit, it was brought to our attention that a glitch in an externally developed software product resulted in the June 30, 2006 delinquent water and sewer receivable balances being understated by approximately \$443,000 (excluding interest and underpayment penalty). Total reported water and sewer customer receivables were approximately \$5.8 million as of June 30, 2006. It is important to note that detail balances of individual customer accounts were not impacted by this error. The error was detected and corrected by the City's Financial Services Department during the current year. Although this matter was detected and corrected, we believe that it meets the definition of a significant deficiency under the new auditing standards. A more complete summary of this transaction (including management's evaluation and action plan) is included in the supplementary schedule of federal financial assistance (the single audit report).

Honorable Mayor and Members
of the City Council
City of Sterling Heights

-4-

September 21, 2007

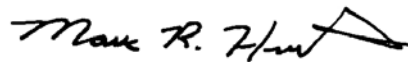
Conclusion

It was a pleasure to once again serve as the City's independent auditor. In our opinion, the City continues to have one of the most soundly structured accounting systems and could serve as a benchmark for other municipalities.

We would like to thank Mr. Baker, Ms. Reinhart, Mr. Sanborn, and the financial services department staff for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Mark R. Hurst



Thomas J. Clement